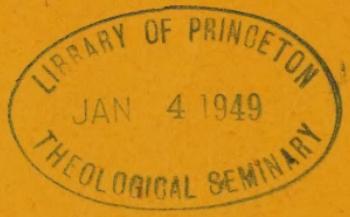


THE  
GUARANTEE  
OF  
ANNUAL WAGES



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BY  
A. D. H. KAPLAN



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# THE GUARANTEE OF ANNUAL WAGES

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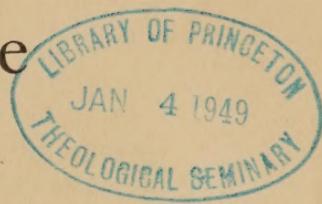
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# The Guarantee

of

## Annual Wages



BY

A. D. H. KAPLAN



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Washington, D. C.

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## FOREWORD

This study was projected shortly after the annual-wage issue was newly brought to public attention through the case presented on behalf of the United Steel Workers of America before the National War Labor Board. President Roosevelt made his request for an official study of the annual wage under the auspices of the Advisory Board of the Office of War Mobilization and Reconversion in March 1945. There was a sense of urgency in the motivation, to ensure wartime labor against the threat of employment insecurity which was widely predicted. Since then the annual wage has temporarily yielded the forefront of public discussion to more immediately pressing issues of national labor policy. The current high levels of employment and living costs would also account for temporary sublimation of the annual wage as a prime issue in current collective bargaining.

The problem of employment insecurity is too fundamental, however, for consideration of wage guarantees to remain long in the background. In the industrial setting of the postwar period, it is unlikely that proposals for the guarantee of an annual wage will be limited to individual company plans. As the scope of the issue is extended to major sectors of the economy, it needs to be studied in relation to the total economic setting which the guarantee of annual employment and wages may entail. Such a treatment of the subject obviously differs from those that have dealt primarily with the terms of a commitment that may be worked out between the employer and employees of a given firm.

From the standpoint of the Institution and the author, there is an advantage in presenting his analysis

when the issue is not under high pressure in current labor negotiations. His study, it will be found, has been focused on the longer-run implications of a general adoption of annual-wage agreements, rather than on appraisal of individual company plans.

In carrying forward his analysis, the author has had the benefit of generous co-operation from business and labor executives, as well as from persons in the public service and the academic field who have been engaged in labor research. The Brookings Institution joins the author in making general acknowledgment of the valuable aid given by the individuals and institutions involved.

The author also desires to express his personal appreciation of the services rendered by those directly associated with him in the preparation of the manuscript. Professor Lothar Richter of Dalhousie University, Halifax, the director of the Maritime Bureau of Industrial Relations, conducted a series of interviews with labor leaders for the specific purposes of this study. The results of his interviews are embodied in Chapter II on the attitude of labor. During the earlier stages of the study the author had the able assistance of Mr. Fred H. Blum, formerly with the Social Security Board, particularly in the review and appraisal of statistical materials.

HAROLD G. MOULTON,  
*President.*

## CONTENTS

|  | PAGE      |
|--|-----------|
| <b>FOREWORD</b> .....  | <b>v</b>  |
| <br>   |           |
| <b>PART I. BACKGROUND AND CURRENT POSITION</b>                 |           |
| <br>   |           |
| <b>CHAPTER</b>   |           |
| <b>I. EXPANDING OBJECTIVES OF THE ANNUAL WAGE</b> .....        | <b>3</b>  |
| Its Place in the Quest for Security .....                      | 3         |
| Annual Wage as Aim of Management .....                         | 6         |
| New Role in Collective Bargaining .....                        | 8         |
| Relation to Full Employment Planning .....                     | 9         |
| Questions Raised by General Guarantees .....                   | 11        |
| <b>II. LABOR'S POSITION ON GUARANTEED ANNUAL WAGES</b> .....   | <b>13</b> |
| Attitudes of the Federations .....                             | 15        |
| Position of the Different Unions .....                         | 20        |
| The CIO Unions .....   | 21        |
| Industries with Divided Affiliations .....                     | 29        |
| The AFL Unions .....   | 34        |
| Attitude of Workers Now Under Annual-Wage Plans .....          | 43        |
| Summary .....  | 44        |
| <b>III. EXPERIENCE OF FIRMS WITH STABILIZATION PLANS</b> ..... | <b>49</b> |
| Types of Plans .....   | 50        |
| Limitations of the Coverage .....                              | 61        |
| Numbers and Industries Covered .....                           | 61        |
| Restrictions on Commitments .....                              | 66        |
| The Abandonment of Plans .....                                 | 73        |
| Conditions Favoring Successful Operations .....                | 75        |
| Significance of the Experience .....                           | 80        |

|  |            |
|--|------------|
| <b>IV. THE DATA OF ECONOMIC FLUCTUATION . . . . .</b>                      | <b>84</b>  |
| Occupational Levels . . . . .  | 84         |
| Major Industry Groups . . . . .  | 87         |
| Significance of the Industrial Segment . . . . .                           | 93         |
| Industrial Production . . . . .  | 97         |
| Manufacturing—Durables and Nondurables . . . . .                           | 99         |
| Cyclical Employment and Pay Rolls . . . . .                                | 102        |
| Durable Lines . . . . .  | 107        |
| Nondurables . . . . .  | 111        |
| Seasonal Variations . . . . .  | 119        |
| Seasonal Variation and Total Hours Worked . . . . .                        | 124        |
| Wages versus Salary Trends . . . . .                                       | 126        |
| Postwar Readjustment . . . . .   | 127        |
| Recapitulation—The Pattern in Relation to<br>Employment Security . . . . . | 129        |
| <b>PART II. THE IMPLICATIONS OF<br/>INDUSTRY-WIDE GUARANTEES</b>           |            |
| <b>V. THE MANAGEMENT-LABOR RELATIONSHIP . . . . .</b>                      | <b>138</b> |
| Comprehensiveness of the Coverage . . . . .                                | 139        |
| Duration of the Guarantee . . . . .  | 141        |
| Reconciling Industry Differentials . . . . .                               | 143        |
| Concerted Action and Central Responsibility . . . . .                      | 145        |
| Summary . . . . .  | 148        |
| <b>VI. IMPACT ON BUSINESS POLICY . . . . .</b>                             | <b>150</b> |
| Guaranteed Wage Bill as Overhead . . . . .                                 | 150        |
| Regularization of Production . . . . .                                     | 153        |
| Effect on Price Policy . . . . .   | 160        |
| Covering the Cost of Guarantees . . . . .                                  | 162        |
| Problem of the Marginal Firm . . . . .                                     | 167        |
| Summary . . . . .  | 169        |
| <b>VII. IMPACT ON THE ECONOMIC STRUCTURE . . . . .</b>                     | <b>173</b> |
| The Leverage of Purchasing Power . . . . .                                 | 175        |
| The Wage Bill and Total Demand . . . . .                                   | 178        |
| The Fluctuation of Consumer Demand . . . . .                               | 181        |

*CONTENTS*

ix

|   |            |
|---|------------|
| Producers' Goods and Private Investment . . . . .             | 188        |
| Conserving Wage Funds for Lean Years . . . . .                | 192        |
| Labor Availability and Total Employment . . . . .             | 199        |
| Summary . . . . .   | 203        |
| The Ultimate Implications . . . . .                           | 208        |
| <b>VIII. THE ROLE OF THE GOVERNMENT . . . . .</b>             | <b>212</b> |
| Unemployment Compensation . . . . .                           | 213        |
| Legislative Inducements to More Stable Pay<br>Rolls . . . . . | 215        |
| The Fair Labor Standards Act . . . . .                        | 219        |
| Integrating Unemployment Compensation . . . . .               | 221        |
| Tax Policy to Support the Annual Wage . . . . .               | 227        |
| Annual Wage Related to Full-Employment<br>Program . . . . .   | 227        |
| <b>IX. SUMMARY OF FINDINGS . . . . .</b>                      | <b>233</b> |
| <b>APPENDIX . . . . .</b>                                     | <b>245</b> |
| <b>SELECTED READINGS IN THE ANNUAL WAGE . . . . .</b>         | <b>261</b> |
| <b>INDEX . . . . .</b>  | <b>263</b> |

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This publication is sent to you with the compliments of the Falk Foundation. If you have already received the publication through other channels, will you be kind enough to give the copy to someone who is interested in its subject? If you desire additional copies, please write The Maurice and Laura Falk Foundation, Farmers Bank Building, Pittsburgh 22, Pennsylvania.

## PART I

### BACKGROUND AND CURRENT POSITION

There are two ways of approaching the annual-wage issue. One is to treat it as a problem in personnel relations as between management and employees. The other is to regard it as a problem in the organization of our economic society. The latter becomes the more significant as the area of industry brought under wage guarantees is expanded.

In practice, American experience with wage and employment guarantees has been related to the first approach. Employees and employers have experimented with arrangements designed to make the worker feel more secure in his status as an employee and the management more confident of securing the employee's best efforts.

With the organization of workers into progressively larger and more comprehensive collective bargaining units, increasing interest has been manifested in the protection of tenure for wage earners as a group. The comprehensive character of recent demands for an annual wage on behalf of organized labor in the steel industry and of other large bodies of workers, has lent added interest to the broad implications of the annual wage for national economic policy.

Individual company experiments in the guarantee of wages have been so limited in scope, that their effect on the economic structure as a whole has been too slight for measurement. If, however, annual-wage guarantees are contemplated as a prevailing pattern for industry, it

becomes far more important to consider the cumulative influence of the spread of annual-wage guarantees upon the climate of industry. It is with that broader aspect of the annual wage rather than with its implications for the individual firm, that this study is primarily concerned.

Part I is devoted to establishing a background against which the implications for the economy in the spread of wage guarantees may be more clearly seen. It deals with the aims of a guaranteed annual wage from the standpoint of the employee. It reviews the experience with annual-wage programs to date to see what significance that experience may have for the more general application of the guaranteed wage across industry. It examines the characteristics of our economy which seem pertinent to a judgment of how the annual wage may fit into our present economic structure.

The urgency of the annual wage as a labor issue may wax or wane, according to whether employment opportunity is high or low, or whether other labor objectives may at the moment appear more practical of achievement. But the problem of economic security for the worker remains. Inasmuch as pay rolls can be sustained only as production supports them, management and labor have a common interest in appraising the annual-wage guarantee for its potential influence on production and employment.

## CHAPTER I

### EXPANDING OBJECTIVES OF THE ANNUAL WAGE

The focus of interest in the annual wage has shifted from the security plans initiated by individual firms to the program of organized labor for industry-wide guarantees of year-round employment and pay rolls. In pre-war discussion of the annual wage, the point of departure was the management policy under which a given company regularized production, reduced labor turnover, and thereby paved the way for more regular employment and pay rolls than generally obtained in the given line of business. On the postwar scene the takeoff is from the annual wage itself. The guarantee of the worker's yearly income is given a dual role: to create high total purchasing power and at the same time to stimulate management toward a level of production matching its pay-roll commitments.

Consideration of the annual wage has thus now been placed in the setting of national economic policy, as a line of exploration in the quest for ways and means of sustaining a "full employment" level of national income over the years ahead. It is toward the implications of the guaranteed annual wage in this new and larger frame of reference that the present study will mainly direct its analysis.

#### ITS PLACE IN THE QUEST FOR SECURITY

Through the record of human society runs a theme of alternation between the desire for security of status and the urge to be released from the restraints of the status

quo. When feudal serfs became wage earners, their new freedom subjected them to the hazard of finding their own means of employment and of holding their jobs in competition with others. Whether competitive access to the labor market has been regarded as a real or dubious privilege has depended upon the character of the resources and the stage of economic development, as well as the temperaments of individuals and nations.

In the United States, the prevailing attitude toward work and wages was one of opportunism so long as there were obvious frontiers beckoning to all comers. The rewards of risk, rather than the promise of security, captured the imagination of nineteenth century Americans, immigrant or native. The mass psychology underwent change with the subsequent occupation of the land and the shift of population to urban centers. The typical assurance of a subsistence from the soil gave way to a complete dependence upon money wages and the job that paid them. Mass production contributed generally to a rise in material standards of living; but at the same time it often involved sweeping decisions that could suddenly change the economic life of a community. The growth of big business accentuated the dependence on job tenure and continuing pay rolls; and by the same token, it gave rise to the counterdevelopment of big labor, likewise capable of decisions profoundly affecting the life of the nation.

The economic value of the sense of well-being in the worker that stems from confidence in the stability of his pay checks has been recognized to a degree by management as well as by labor. Various company plans designed to regularize employment and labor earnings appeared after World War I, though most of them had to be abandoned after 1930. With the depression of the

early thirties, the public concern for wage security sought expression in legislation like the NRA and WPA and in the more permanent Social Security Act which, among other features, provided definite compensation to the unemployed in industry. The Fair Labor Standards Act of 1938 not only set up the machinery for enforcement of minimum wage standards, but (in section 7 of the act) attempted to foster the guarantee of year-round employment and wages by provisions under which overtime premiums could be saved by firms which met certain standards for regularity of employment. At the same time, union agreements as well as unilateral management policies increasingly included provisions for dismissal notice and severance pay. Moreover, the passage of the National Labor Relations Act (the Wagner Act in 1935) provided new legal sanctions for the organization of workers in their common interest.

The unprecedented demand for labor in World War II eased the stress on job security. As labor turnover reached its all-time high, workers moved freely to more lucrative jobs from the occupations to which they had been attached. Special wartime legislation was deemed necessary to freeze them temporarily to their industrial posts. But as the end of the war approached, the concern for job security reappeared. Wage rates represented a fiction unless a steady job ensured regular take-home pay. Moreover, in many occupations the wage rates had already been brought up to a point where further efforts to enlarge labor's share in the production were destined to yield diminishing returns. It was logical, therefore, that an increasing fraction of the labor leadership should give weight to job tenure and regularity of take-home pay as the next major objective of collective bargaining.

Meanwhile, the Wagner Act under wartime condi-

tions vastly extended the areas of jurisdiction for labor organizations. With the memberships of several single unions approaching the half million figure, the workers in key industries like steel, automobiles, and textiles were brought almost without exception under the aegis of their respective industrial unions. The scope of union decisions was expanded to the level of industry-wide policy; and, indeed, through the CIO and the AFL, some aspects of union policy assumed nation-wide implications. It is in this setting that the guaranteed annual wage has assumed its current prominence as a national issue.

#### **ANNUAL WAGE AS AIM OF MANAGEMENT**

The term "annual wage" has been loosely used to cover a variety of management approaches to the problem of regularizing the employee's income. Strictly speaking, a "guaranteed annual wage" would mean a guarantee of year-round employment at a specified rate with regular pay checks, assuring the employee a stated minimum of annual income. It would imply a claim of the employee to a regular pay check whether or not the volume of production covers the employment and wages guarantee. Such unequivocal commitments are exceptional. They are to be found in a comparative handful of firms, mainly in distributive lines, covering the skeleton force of needed employees. The typical plans which will later be examined<sup>1</sup> may be called annual-wage plans in this sense: whether they feature a minimum amount of employment or an averaging of weekly wages, or the supplementing of low earnings and inadequate unemployment compensation, they are all designed to achieve

<sup>1</sup> See Chap. 3.

greater regularity in the annual wages paid to their employees.

Regularization of employment, along with the ironing out of fluctuations in production, has also been a major aim of management in many firms which have never announced annual-wage plans. But the formal commitment to a wage-security plan has more definitely let the employee know where he stands. The cushion offered to the worker and his family against fluctuations of income, between peak employment and lulls, made for a less harried, steadier labor force. The company programs were intended to encourage a community of interest between management and the labor force. Removing the fear of layoffs could mean higher operating efficiency and better assurance of continuing business. The inauguration of an annual-wage program was usually preceded by an experimental period in which the management determined what it could afford to promise without jeopardy to the enterprise. The formal commitment to a wage-security plan challenged management to bring production practices and marketing policies into closer harmony with stable, weekly pay rolls. Consequent refinements in operation have in turn made it possible to extend eligibility to a larger fraction of the working force, and occasionally to liberalize the commitments.

Firms operating under annual-wage plans have been, as a rule, in consumer goods lines with relatively consistent demand and predictable seasonal fluctuations in output. This is true of the annual-wage plans most commonly cited as successful—Hormel in meatpacking; Nunn-Bush, shoes; Procter & Gamble, soaps and fats. Of the currently reported union agreements containing

annual-wage clauses, the majority are with retail establishments.<sup>2</sup>

On this basis of action, initiated by individual companies in relatively stable lines, annual-wage plans were not only limited in number, but excited comparatively little general public interest before the war. The subject has taken on new life and broader implications for the economy since the deep concern of labor in the transition from high-level war activity to the resumption of peace-time conditions has placed the annual wage high on the list of current objectives of organized labor in collective bargaining.

#### NEW ROLE IN COLLECTIVE BARGAINING

The occasion for putting the guaranteed annual wage into new prominence was provided by the United Steel Workers of America, CIO, in the case for wage adjustment which it presented to the National War Labor Board in the summer of 1944. As part of their request for wage adjustments, the steel workers asked for the guarantee of employment on an annual basis throughout the industry. The proposal for job security by the United Steel Workers of America directly involved 86 "basic steel" companies and approximately 400,000 employees affiliated with the union.

In responding to the petition of the United Steel Workers for a guaranteed annual wage, the War Labor Board said that "in the present state of the country's information on the subject, the Board is not prepared in this case or in other dispute cases, to impose such guarantees by order."<sup>3</sup> The Board would, however, approve

<sup>2</sup> For data on firms and employees covered by annual-wage agreements, see the same, pp. 64, 65.

<sup>3</sup> National War Labor Board, Office of War Information, B-1851 "Basic Steel" Division, Nov. 25, 1944. (mimeo. release.)

such plans for the guarantee of annual wages as might be worked out between labor and management by collective bargaining. The Board recommended to the President "that the whole question of guaranteed wage plans, and the possibility of their future development in American industries as an aid in the stabilization of employment and the regularization of production, should now be comprehensively studied on a national scale."<sup>4</sup> President Roosevelt accordingly directed that such a study be undertaken by the Advisory Board of the Office of War Mobilization and Reconversion.

Confirming the executive mandate, an official study of the guaranteed wage was implemented by a congressional appropriation and launched in the fall of 1945.<sup>5</sup> Several of the large industrial corporations, including General Motors, U. S. Steel, and Shell Oil have undertaken special studies of the possibility of further wage stabilization. The intention of pressing for an annual wage in forthcoming negotiations has been expressed by the labor leadership of the oil, rubber, automobile, meat packing, and maritime industries, among others. These groups alone involve an aggregate union membership of more than 2 million industrial workers, as compared with a total coverage of 12,500 industrial workers in present union agreements containing stabilized wage commitments.<sup>6</sup>

#### RELATION TO FULL EMPLOYMENT PLANNING

In this new frame of reference, a study of the annual

<sup>4</sup> The same.

<sup>5</sup> The study was carried forward under the direction of Murray W. Latimer, and the final report submitted to the Advisory Board of the OWMR in January 1947.

<sup>6</sup> "Guaranteed-Employment and Annual-Wage Provisions in Union Agreements," *Monthly Labor Review*, April 1945, p. 708.

wage necessarily brings up a number of pertinent questions concerning the pattern of industry in which the guarantee would be feasible, or to which it may give rise.

It is significant that the steel industry should have been selected as a test case for demanding a nation-wide application of the annual wage. That carries the issue into the durable goods industries, where employment has been subject to extreme cyclical fluctuations; and it thereby raises the whole problem of stabilizing production and demand where they have been least predictable. The value of an annual wage in steel, as in other lines of durable goods, would lie in protection against changes over the years rather than in the adjustment of pay rolls and operations to offset the seasonal fluctuations in some consumer lines. Thus, we must project the problem in terms of guarantees that will run for an extended period. In an industry like steel, which derives its orders from the demands of other industries, the feasibility of a continuing annual-wage guarantee will be related to the problem of synchronizing demand and employment among interdependent industries. These issues go well beyond the prewar scope of the annual wage in which commitments involve the management and employees of a single firm.

If we follow through on the conception of an unequivocal guaranteed annual wage, the question will also arise as to how to provide such payments when there is no comparable volume of sales with which to cover the wages. Would the commitment of an individual firm under a general industry agreement for an annual wage need to be reinforced from a more general pool of resources? Would such an underwriting require government participation in the pool, to take care of cases where a whole industry is in a depression state?

On this score the labor advocates of general annual-wage agreements have voiced the belief that the annual wage will provide an answer to the problem of production and employment. It is argued that if guaranteed annual wages are undertaken during the present period of high employment, that will mean an assured fund of purchasing power in the hands of the masses, which in turn should liven the demand for new investment to match the sustained consumer market. The area of failure to meet commitments would thus be reduced to a manageable minimum. With the aid of existing unemployment compensation measures, the annual-wage program should be virtually self-sustaining. The economics of this position will need examination.

#### QUESTIONS RAISED BY GENERAL GUARANTEES

The bargaining position of labor and particularly of organized labor under a generalized annual wage must also form part of the inquiry. Experienced leaders of old-line craft unions have already indicated their apprehension that industry-wide annual wages may handicap further efforts toward higher wage rates; that it may reopen hard-won seniority agreements; that it will loosen craft lines; that it increases the likelihood of intervention by the government in the collective bargaining process.

Would the regularization of incomes through annual-wage commitments tend to increase total employment and aggregate income of the labor force? Would the security to eligible workers improve the employment prospects of those who have not yet qualified under the guaranteed provisions?

From the viewpoint of this study, the experiments of individual companies with regularization of production,

marketing, employment, and wages have provided useful case material within a limited area of the subject under consideration. To what extent do these experiments of individual companies with annual-wage programs throw light on the broader questions of how total employment, man-power mobility, competition, and investment would be affected by the extension of annual-wage commitents to the bulk of industry? What direction would business policy take on product development, pricing, and related competition behavior, in the event that a general guarantee of annual wages is applied to an industry?

In the ranks of both management and labor there has been some experience with the annual wage. Among companies, as well as among unions, some thought has been given to means of regularizing employment and wages even though annual-wage agreements have not resulted. It will be the purpose of the two ensuing chapters to draw the pertinent inferences from the experience of managements which have operated under annual-wage plans and also to ascertain the position of labor organizations on the annual wage as it would apply in different industries.

## CHAPTER II

### LABOR'S POSITION ON GUARANTEED ANNUAL WAGES<sup>1</sup>

The immediate implication of the term "guaranteed annual wage" is that it is a promise of greater security to labor with which management may or may not be willing or able to go along. The fact that the recent drive for annual-wage guarantees has emanated from the ranks of an important labor organization, tends to reinforce the implication that the annual wage is labor's program—a program which labor has to sell to management. A connotation that may therefore creep in is that those who are on the side of labor favor the guaranteed annual wage, while those who are opposed to the annual wage are opposed to the interests of labor.

In the light of this conception it would seem useful to indicate the varying points of view held by labor leaders and organizations, as well as the factors and criteria which go to form their attitudes. As we shall see, labor leaders are not yet prepared to join in a clearcut answer to the question, "Does labor generally favor the applica-

<sup>1</sup> The impressions gleaned for this chapter, on the attitude of labor toward the annual wage, are largely the reflection of interviews and correspondence with labor leaders in a variety of industries. For a substantial portion of the material gathered from conversations with labor leaders, the author is indebted to Professor Lothar Richter of Dalhousie University, Director of the Maritime Bureau of Industrial Relations, who undertook the interviews for the purposes of this study. The author is solely responsible, however, for the presentation of views as given in this chapter. The off-the-record statements of the labor leaders involved are not amenable to direct quotation or naming of the speakers whose opinions were expressed, except that in some cases the appearance of similar views in publications has made quotation and documentation possible.

tion of the guaranteed annual wage to industry?" An effort to learn what labor representatives think of the annual wage has revealed a diversity of reactions. They range from sympathetic acceptance of the principle through varying shades of skepticism about its application, to apprehension over its disturbing effect on the gains already won in traditional collective bargaining.

There is no question about labor's grave concern with job security; no single postwar problem appears to weigh more heavily on the worker's mind. But this interest in job security has not yet been translated into any widespread interest of labor in the drive for a guaranteed annual wage. The subject of a guaranteed annual wage has been given comparatively little space in the labor press. Moreover, the diversity of annual-wage plans has tended to cloud the issue. In interviewing labor leaders, it was often necessary to explain the annual wage in its varied forms before pertinent responses were forthcoming. This observation applies to CIO ranks as well as to the others, even though CIO unions in general have been more interested than those in the AFL in the proposal for industry-wide guarantees of an annual wage.

The typical labor leader is quick to note the difference between the annual wages obtained during continuous high employment, and the kind of guaranteed annual-wage protection that depends on a formal agreement by means of collective bargaining negotiations. For purposes of an annual-wage agreement, he is concerned about what employees shall be covered, and how those not covered will be affected by the commitments made to the eligible workers. He is likely to point to the varying abilities of competing employers and competing areas to uphold annual-wage guarantees. The old-timers in labor organization are especially interested in the

effect on seniority rights, on the maintenance of going hourly rates, and on the protection of craft lines. There is usually a zeal for the retention of collective bargaining prerogatives in the local organization to meet local conditions. The following summary may suggest the lines along which annual-wage policy is likely to develop.

#### ATTITUDES OF THE FEDERATIONS

The treatment of the annual-wage concept at the level of economic policy, as a phase of the general problem of employment security, has been confined largely to the national spokesmen for the labor federations. The separate unions are more prone to focus their attention on whether a guaranteed annual wage is applicable to the special problems of the workers within the given industry or union jurisdiction. It therefore seems logical to take up, first, the official word of the two major national federations. We may then see how far "the party line" is followed in the comments of labor representatives who have felt free to express their personal views on the annual wage for their respective industries and localities.

*The official line of the CIO.* The most articulate support for industry-wide guarantees of an annual wage has come from the national CIO and its affiliates in steel and marine crafts. In *Guaranteed Wages the Year Round*, issued by the CIO for the education of its membership, the subject is presented as still in the thinking-aloud stage, with the argument centering on the need for job security.<sup>2</sup> The annual wage is seen as an aid to the

<sup>2</sup> "We do not pretend to have all the answers. The Sub-Committee on the Guaranteed Wage appointed at President Roosevelt's request is making a detailed study of the entire problem. CIO unions are developing programs for their own industries. Many employers and economists and management experts are giving serious thought to solutions.

"It is hoped that these studies and discussions will result in many useful proposals. How quickly such proposals are adopted depends

achievement of full employment because—and here is the underlying assumption—industry under the guaranteed annual wage means assured purchasing power to the laboring masses. That purchasing power, in turn, means a maintained demand for goods such as will assure continuing high levels of production and employment and thus make good the guarantees.<sup>3</sup>

The CIO places the initial responsibility for providing and guaranteeing steady jobs upon management, with the risks of idleness to be met by the employer.

If employers will agree to give labor regular work and pay, the whole community will benefit. . . .

If employers fail to provide jobs, and workers are forced to remain idle through no fault of their own, then why should their wives and children bear the cost?

.....

The employer sets aside a fund to replace old machines, to pay off bondholders and people who have put money into the business. It is just as important to set aside money to protect workers who have put their strength into their jobs and whose hopes and livelihood depend upon employment.<sup>4</sup>

The general form of guaranteed annual wage demanded for the steel workers and sponsored by CIO as a standard for industry, has been explained by Philip Murray as follows:

. . . Reduced to a simple formula, the guaranteed annual wage as requested by the union suggests that management be required to give workers 40 hours work each week for 52 weeks —arriving at a figure of 2,080 hours. That figure of 2,080 would be multiplied by whatever is the individual's hourly rate.

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on mobilizing widespread popular support." From the "Foreword" by Philip Murray.

<sup>3</sup> *Guaranteed Wages the Year Round*, p. 11. Also Harold T. Ruttenberg, in "Should Industry Attempt to Guarantee Labor a Minimum Annual Wage?" *Town Meeting Bulletin*, Oct. 12, 1944.

<sup>4</sup> *Guaranteed Wages the Year Round*, Foreword and p. 20.

For each week during the life of the contract that the employe, for reasons beyond his control, does not receive a sum equal to this minimum amount, the company shall make up the difference.<sup>5</sup>

In the CIO's attack on the problem of irregular income, emphasis is placed on cyclical fluctuations, which loom larger in the argument than do seasonal variations. But there is no attempt to state how far ahead a guarantee would have to run to meet the cyclical problem. On the contrary, when the question is faced as to just what guarantees are obtainable, it is expressly noted that not every industry can be committed to the standard CIO model as given above. "Just what the contract says depends on the union and the employer. Like other terms, it is decided by agreement to meet the special situation in the plant or industry. Thus, wages are a definite cost that must be met—and the employer figures out a way to meet them."<sup>6</sup>

This is in keeping with the widely-held view that the CIO presented its proposal on behalf of the United Steel Workers before the War Labor Board as a trial balloon, and as a starting point for bargaining. Said Mr. Murray: "It was to be expected that when we tossed this demand into collective bargaining it would enjoy the benefit of that great American custom of wide and open discussion. It has . . ."<sup>7</sup>

The CIO is apparently striving for a generalized formula that may be used as a model for annual-wage

<sup>5</sup> *New York Times Magazine*, Apr. 8, 1945, p. 12.

<sup>6</sup> *Guaranteed Wages the Year Round*, p. 4.

<sup>7</sup> The same. In the same vein runs the statement of an organizer for the steel workers: "We set our program for annual wages in the steel industry not because we believed that employers would grant it, but because it was the one way to get public attention focused on the problem." *Antioch Review*, Vol. V, No. 3 (1945), p. 453.

agreements to cover a substantial fraction of industry. And it looks to the government as a rear line of defense to come to the rescue of business that cannot by itself make good the guarantee.<sup>8</sup>

*The official line of the AFL.* The current position of the American Federation of Labor on the annual wage appears to be one of taking no official cognizance of the proposals advanced by CIO. In an issue of the *American Federationist*<sup>9</sup> that came out shortly after the steel brief was submitted, William Green accepted the annual wage as a legitimate objective in union negotiations, just as he would explore any avenue of stabilization that would mean greater job security without, however, sacrificing labor's freedom of action in collective bargaining.

As evidence of a concern of long standing with the stabilization of annual wages, Mr. Green has cited his efforts to stabilize worker incomes in the automobile industry during NRA negotiations in 1934. At that time he backed a proposal that the industry estimate its wage bill a year in advance and make commitments in consonance therewith. According to Mr. Green, "the refusal of the automobile manufacturers to put the plan into effect was not the result of any specific objections to the plan. It was a refusal to accept the plan merely because it was a union proposal." He notes, moreover, that "the experience of the past twelve years in other industries has demonstrated the workability of the guaranteed annual wage. As the result of collective bargaining negotiations the annual-wage guarantee has become a

<sup>8</sup> "How much help the government will have to give depends on how much business can do itself. That is largely up to business. The CIO stands ready to cooperate with it in planning steady jobs. But what business cannot do by itself or with labor's aid, the people, through our government, must provide." *Guaranteed Wages the Year Round*, p. 14.

<sup>9</sup> April 1945, p. 5.

reality in many widely-diversified sections of the industry.”<sup>10</sup> It is in terms of specific agreements in particular cases, in conjunction with wage and other standard bargaining issues, that the AFL endorsement is given.

The AFL is more reluctant than the CIO to set an annual-wage pattern for its affiliates to aim at. First, reliance is placed on individual adjustments through bargaining rather than industry commitments. Moreover, “adjustment of the wage rate to the productive performance, the skill and the experience of the worker must remain at the heart of the process of wage determination, of the setting of the wage standard.” To the AFL, “the wage rate . . . [is] the basic measure of the worker’s worth to the employer.”<sup>11</sup>

Mr. Green would steer clear of any over-all provision for the annual wage that may displace voluntary bargaining between management and labor.

We must not look upon the annual wage as a magic formula. It is not applicable in all situations. Nor does it lead itself to general application by government mandate. The annual wage involves every issue of wage and employment policy, and should be applied on a voluntary, not a compulsory, basis.  
...<sup>12</sup>

There is no simple single formula for an annual wage plan which could be applied indiscriminately in any employment situation. An effective annual wage plan must fit the operating realities of a particular firm or a particular industry. It must not be used as a device to lower the established wage standards of workers brought under the plan.<sup>13</sup>

The distinction between industries is sharply drawn in the AFL approach. At one end of the industrial scale

<sup>10</sup> The same, p. 5.

<sup>11</sup> The same.

<sup>12</sup> The same, p. 33.

<sup>13</sup> The same, p. 32.

Mr. Green notes industries whose production has already been stabilized, and which therefore "offer the widest scope for the initial application of the annual wage plan." At the other end of the scale are the seasonal industries such as those engaged in the processing of highly perishable products, and the construction industry with its characteristic ups and downs. Construction is specifically mentioned as the exceptional case incapable of stabilization in the near future. It is the area between these extremes that offers "the greatest opportunity for a constructive and co-operative effort between unions and management to apply the annual wage guarantee."<sup>14</sup>

Mr. Green lays down four propositions as prerequisites for an annual-wage program acceptable to labor.

1. It must be adapted to the operating relations of a particular firm or a particular industry.
2. It must not be used as a device to reduce the established wage standard of workers under the plan.
3. It must not give greater stability to one group at the expense of the rest of the employees of the establishment, turning the others into casual workers.
4. The plan must be the outgrowth of mutual agreement between the union and management, dictated by the practical experience of both.

#### POSITION OF THE DIFFERENT UNIONS

Of the two labor federations, the CIO seems more concerned with economic policy guidance for its constituent members than does the AFL. The latter more nearly represents a loose confederation of highly autonomous unions which, like the United Mine Workers, make their own policy. In either case, the viewpoint of the individual labor organization is likely to be influ-

<sup>14</sup> The same.

enced more by conditions peculiar to its industry than by the fact of its affiliation with the CIO or the AFL. Despite the initiative of the CIO in pushing the annual wage, there are important groups therein that have significant reservations on the applicability to their present setup. On the other hand, the American Federation of Labor includes unions like the International Electrical Workers and the Hatters Union, which have given serious and sympathetic consideration to the development of an annual-wage program.

It would seem logical, nevertheless, first to take up the industries where CIO prevails, then proceed to certain hybrid situations, and finally consider those definitely in the AFL camp. Support of the annual wage is now part of the official national policy of the CIO. Therefore an individual union affiliated with the CIO is placed in the position of having to defend, as a special case, any departure from support of the annual wage. On the other hand, the preponderance of craft unions is in the ranks of the AFL; unions like those of the building trades have well-established mores that may be threatened by industry-wide adoption of the annual wage. Hence we commonly find opinion in the American Federation of Labor to be one of caution toward the annual wage. By the same token, an AFL union that does accept the annual wage as an objective is significant as an advance guard in an organization which, as a whole, has not officially committed itself to the program.

### The CIO Unions

The opening of the campaign for annual wages on the part of the CIO was the case presented by the steel workers before the War Labor Board. The fact that the subcommittee on the annual wage was authorized

as a direct result of the steel workers' demand, likewise tends to focus attention upon that industry when CIO sponsorship of a guaranteed annual wage is mentioned.

*United Steel Workers of America.* The brief presented on behalf of the United Steel Workers emphasized the point that a guarantee of continuing year-round wages to the workers in a cyclically sensitive industry like steel would have highly desirable effects on the general economy. In the first place it would tend to stabilize the purchasing power of the workers where income has been notably unsteady. The assured purchasing power of steel workers, along with automobile workers and others subject to cyclical changes in the past, would tend to keep up the demand for the products of steel and for other durable goods. That very fact, it is asserted, would exercise powerful influence in checking the spread of fluctuations in industry as a whole.

The labor spokesmen in steel recognize that they belong to a strategic union within the CIO—one with a membership of nearly three quarters of a million workers. That numerical pre-eminence was taken to place upon steel workers the responsibility of assuming the initiative in stating the general case for guaranteed annual wages. The blanket request before the War Labor Board for 2,080 hours of annual pay at an agreed rate, was on behalf of all steel workers who have been connected with the industry for three months or more. No indication was given by the union spokesmen as to methods whereby the reserves of good years may be carried over to support the deficiencies of low production years.

The argument runs that the steel industry is in the business group that profited heavily from the war, and

that it is therefore in a position to make financial provision for wage guarantees until the workers are eventually protected through the mass purchasing power generated by regular pay checks. The argument is followed up with a reference to the tax refunds that became available to industry in the event profit rates during the transition period fell below the prewar average. Labor is reminded that the farmer likewise has a guaranteed support price for key war products. Labor thus remains as the group which has yet to attain corresponding measures looking to the stabilization of its incomes.

These lessons in economics obviously emanate from the top level of spokesmanship for labor in the steel industry. The process of educating the rank and file to the implications of the annual wage is a slow one. The evidence on that point which appeared in a few random conversations with steel workers was partly confirmed in an independent poll made in November 1945—twenty months after the Steel Workers annual-wage case was presented to the War Labor Board. In that poll less than 40 per cent of the steel workers answered "Yes" to the question, "Have you heard of the annual wage?"<sup>15</sup>

*The United Automobile Workers.* Labor leaders in the automobile industry appear to be content for the present to follow the lead of the steel workers in respect to the annual wage while the consolidation of gains in wage rates is central in UAW strategy. While president of the United Automobile Workers, R. J. Thomas had expressed himself as strongly behind the annual-wage principle. In his capacity as chairman of the CIO Committee on Housing, he advocated the reform of the construction industry so that it might be brought under the kind of mass production that will permit the application

<sup>15</sup> *Factory Management*, December 1945, pp. 84-85.

of the annual wage to that important area of industry. This is in line with the attitude of the Reuther faction in UAW, which regards the promotion of a full employment program with strong government support as the necessary prelude to the implementation of guaranteed annual wages in the automotive industry.

*The Marine Workers' Unions.* The ultimate in annual-wage programs may be represented by the spokesmen for the marine workers' unions. The steel workers stopped short of tackling the moot questions of national regularization of their industry that may flow from a general application of the guaranteed annual wage such as was requested before the War Labor Board. But at least one CIO group appears to have no inhibitions on this score. The Industrial Union of Marine and Shipbuilding Workers, seconded by the National Maritime Union of America, has not only come out with a formal demand for guaranteed annual wages, but has suggested means of implementing those demands by the rationalization of resources and production for the maritime industries.

We have here the case of a union that grew to unprecedented proportions as a result of the wartime boom in shipbuilding and was faced with an equally drastic reduction in its ranks and employment opportunities. The union's proposals not only comprehend regularization of wages on an annual basis, but also involve setting a floor of operation and employment to be maintained with government co-operation as a matter of national public policy.

The core of the program is the guarantee of an annual wage to a substantial nucleus of workers attached to the industry. For the standard shipyard mechanic it is fixed at \$3,000 per annum, with proportional rates for the

others. The program suggests for the postwar period the reduction of the work week from 48 to 35 hours while maintaining the guaranteed annual earnings of \$3,000. Adjustments are to be made corresponding to changes in the cost of living. The union program further demands that employers pay 3 per cent of the wages into an unemployment fund. Payments therefrom should bridge the gap between prevailing unemployment compensation benefits and the full-time wage. Provision is also included for the granting of severance pay to workers who must be permanently laid off from the industry, equivalent to 8 per cent of their annual earnings for a maximum of five years.

Realizing the inevitability of the reduction from wartime levels of employment in the industry, the union advocated a planned slowing up of the decline. Shipbuilding and ship maintenance constitute a "public industry" which must be maintained in the interest of the nation "irrespective of the means required." The floor of employment in the maritime industry is set at 500,000 after 1947. That figure was viewed as "the absolutely basic employment needed to maintain American shipping and shipbuilding upon a healthy basis."

The maritime union would not dodge the question whether the shipyard operators could guarantee annual wages to any large percentage of the workers in view of the violent fluctuations to which the industry has in the past been subject. In the wording of the Executive Board, the union recognizes:

... that guaranteed annual wage plans cannot be established on a nationwide basis without establishing a planned economy in America.... Unplanned production, unrestrained competition are two conditions under which it would be impossible to guarantee the job security of American wage earners. There-

fore organized labor must work for a planned economy, in the public interest, based upon open markets and free world trade.<sup>16</sup>

The Executive Board offered specific suggestions for equalizing job opportunities, like the "allocation of shipbuilding and repair contracts upon the basis of yard and ports or regions, so that a fairly level employment may be maintained for the permanent force of employees envisaged under the guaranteed annual wage plan."

Since the spontaneous development of such a program would take too long, government assistance is requested to initiate guaranteed annual wages as a means of warding off the effects of a postwar slump. But the officers of the union do not concede that the national planning of their industry would do away with their autonomous activity as a union. They apparently visualize the industry as continuing under private operation; and they want to make certain that the union fully participates in the plans made for the guarantee of wages in the industry. "It has been the sad experience of labor," according to the Shipworkers' Executive Board, "that where guaranteed annual-wage plans were in effect, they were usually instituted by paternalistic employers to prevent union organization of their workers and to obtain production at the lowest possible cost."

Nearly a year before the shipyard workers published their plan, a related group, dependent on the sea for their livelihood, had gone on record in favor of a guaranteed annual wage—the National Marine Union, CIO, under which the seamen are organized. Early in 1944, the council of the seamen's union adopted a resolution declaring that "demands of the war and postwar period

<sup>16</sup> "Guarantee Annual Wage for Our Security," *The Shipyard Worker*, Apr. 9, 1945, p. 2.

for a strong, efficient, stable merchant marine require a guaranteed annual income for seamen, men operating at top skills, and the ironing out of problems in a steadily improving atmosphere of labor-management-government co-operation.”<sup>17</sup> The resolution deals at some length with the advantages that would accrue not alone to the seamen and their families, but to the community and the nation, if the income of seamen were made secure. The seamen’s union, however, does not go as far as the shipyard workers to indicate how that stabilization is to be achieved.

The marine program has been discussed at some length because it is the only one within the ranks of the CIO which carries to its logical conclusion the implications of the official approach of CIO to a guaranteed annual wage. Other CIO leaders were inclined to smile at a reference to the program of the shipyard workers, as one would at a dear aunt who had entered second childhood. Yet the fact remains that the leadership of the shipyard workers, faced with the decline of their industry, has recognized—more frankly than the rest of the CIO seems prepared to do—that the guarantee of industry-wide annual wages in a precarious industry entails the underwriting of the conditions under which the annual-wage program can be carried out.

The group of CIO unions that we have just covered—steel, UAW, shipyard and marine workers—represent the fullest acceptance of the CIO “official line” on annual wages. In greater or less degree, they stand for an annual-wage program as the starting point for the opera-

<sup>17</sup> See, “Ask Set Yearly Wage for Stable Industry,” *The Pilot* (official organ of the seamen’s union), July 21, 1944.

tion of big industry. The problem of justifying the payment of wages for productive work is placed in the lap of management. It becomes the problem of government, representing the whole economy if management cannot solve it. In that approach, labor is relieved of the risk of layoffs, whether due to seasonal or cyclical fluctuations in production.

Conversations with individual representatives of the steel and automobile industries have indicated that they would settle for a lot less than the CIO brief has implied. In the first instance of a steel agreement under the CIO program for an annual wage—that with the Wildman Manufacturing Company—a one-year contract was signed guaranteeing 1,200 hours work to the 70 per cent of the force with five years or more of continuous service. It was hailed as a major victory by the union's organ.<sup>18</sup> A similar CIO guaranteed annual-wage agreement, with the Orgill Brothers of Memphis, Tennessee, involving eight workers, provides that "nothing herein shall impair the right of the employer to terminate employment of any employee because of change of business conditions or for cause."<sup>19</sup>

Thus, compromise for part of the loaf is accepted as tactically sound. The acceptance of partial guarantees is not regarded by the steel spokesmen as an abandonment of the full annual-wage guarantee as the objective. The early agreements have significance, however, as indicating a recognition of the need for keeping actual agreements well within the resources of the firms whose employees are affected.

The next labor groups to be considered are in meat

<sup>18</sup> See, "First in Steel," *Steel Labor*, August 1945, cover page.

<sup>19</sup> The same.

packing, clothing, and textiles. They have the common characteristic of involving nondurable goods with rather definite seasonal patterns. They also represent industries which have labor unions in AFL as well as CIO. In no instance was a labor leader from these industries opposed to the annual wage as an ultimate goal; but the limitations and difficulties of any uniform application of the annual wage in their respective industries were placed in the forefront of their thinking.

### Industries with Divided Affiliations

*Meat packing.* In meat packing, union strength is almost equally divided between the CIO and the AFL unions. The idea of an annual wage has received more general affirmative response from meat packers in the CIO than among the AFL representatives of the industry. There was not, however, a disposition in either camp to accept wholeheartedly the guarantee of annual wages on an industry-wide basis—at least not for the present.

It was pointed out by national officers of the United Packinghouse Workers of America, CIO, that its only local under an annual-wage guarantee was Local No. 9, in Austin, Minnesota, comprised of employees of George A. Hormel & Company. While the CIO itself has pointed to the Hormel setup as an example of the beneficial effects of a successfully operated annual-wage plan, the meat packing representatives were inclined to be critical in their analysis of that situation. In the first place, they were frank to point out that their union did not develop the Hormel plan. They viewed the Hormel plan as a formula of the management, based on management's criteria of safe margins, and already in operation before the workers were organized.

The main value to the workers in joining the CIO was said to lie in the fact that through the union they could more effectively present their objections to certain management proposals, or their demands for further concessions.<sup>20</sup>

On the AFL side, the workers in the meat industry are represented by the Amalgamated Meat Cutters and Butcher Workmen of North America, an organization that has been operative for half a century. During an executive meeting in the fall of 1945, the vote of its Board, according to one of the officers, was unfavorable to the guaranteed annual wage. This was explained in part by the fact that the majority of the officers are men of long union experience, representing the more highly skilled workers, like the meat cutters. It was further explained that the AFL union includes workers in a large number of small wholesale and retail markets as well as slaughtering houses; that the union helped to put these small organizations back on their feet after the depression which followed World War I, and that the union did not want to jeopardize the solvency of the smaller operators by submitting them to conditions which only the large operators could find advantageous. Nevertheless, the value of the annual wage as an ideal for the industry was sympathetically recognized. One of the AFL leaders expressed the belief that "if you put the matter before the locals and properly explained it

<sup>20</sup> The comment of one labor leader, whose name must be withheld, was to this effect: "I wouldn't like to see the Hormel plan spread to our other CIO locals. The men in the plant mostly take what Hormel worked out for them, so there isn't much that we can build up for our men to fight for, to keep up interest in the union. If we sign any more annual wage agreements, they'd better be *union made*, instead of taking only what the management would do anyway."

to them, the great majority of the members would be in favor of annual wages."

The Meat Cutters' union points to efforts toward regularization of employment going back to World War I. Following that war, the union obtained an award from an arbitration board headed by Federal Judge Altschul, of a guaranteed work week of 36 hours. The guarantee was lost by the union in 1922, but the demands of the meat cutters for a guaranteed work week bore fruit in the agreements since 1934, starting with a guaranteed week of 28 hours and gradually increasing to the current 36 hours.<sup>21</sup>

In the meat packing industry, the caution respecting more extensive coverage under the guaranteed annual wage arises from problems of union status. In this connection it was brought out that a guaranteed annual wage in the meat packing industry would require a shift of workers from one department to another. Seniority rights would be disturbed; eligibility for preferred status under employment guarantees would tend to be on a general plant seniority rather than a department seniority basis. Wage differentials between types of skills would thereupon have to be reduced, and some of the craft lines erased. Hence, the union leaders were not prepared to "rush into" a disturbance of the union structure, even where they recognized the ultimate value of annual-wage guarantees "when they can be made to stick."

*The textile workers.* The textile workers represent another area of industry in which the approach to the

<sup>21</sup> The point of the guaranteed work week is that if a worker is taken on at the beginning of the week, he must be given work or compensation for the minimum guaranteed number of hours in that week.

annual wage is not governed by loyalty to the particular federation under which the union belongs, but rather by the problems peculiar to the structure and locale of the industry. Among the textile workers, largely CIO, the immediate problem in 1945 was to raise the hourly rates, which were below those prevailing in other unionized industries. Their position at that time was: "We have no time to think about the guaranteed annual wage at present; when we have won the battle for a rise of minimum hourly rates . . . , we may be able to go into the question of guaranteed annual wage." They see, moreover, that after winning a substantial increase in hourly rates, they will have to allow time for adjustment of the industry to the new rates; and labor leaders foresee that during that transition, management will not risk a commitment to annual-wage guarantees.

*The garment workers.* There is no area of industry in which the desirability of achieving guaranteed annual wages to the workers is more fully recognized than in the clothing industry. The apparel trades have a record of early attempts to overcome the seasonal and fashionwise extremes that have made work in that industry especially precarious.<sup>22</sup> Though the ladies' garment workers are mainly AFL (International Ladies' Garment Workers Union), and the men's clothing workers are mainly CIO (Amalgamated Clothing Workers of America), the differences in viewpoint were few, and these were related to visible differences in the structure of the men's and women's clothing business.

In men's clothing, which is dominated by the Amalgamated, CIO, big industry appears to be evolving from the earlier pattern of the garment trade of small and

<sup>22</sup> See The Cleveland Plan, Chap. 3, pp. 72 and 79.

relatively unstable firms. The union has collaborated with employers in efforts to extend advance planning of production and marketing so as to provide greater regularity of employment. These are considered to be more successful than earlier abortive guarantees that could not weather changes in business activity. The labor leadership apparently prefers to continue with a limited but practical program of obtaining from local employer groups such concessions in the way of minimum employment guarantees and severance pay as may be won by taking advantage of opportunities offered in local collective bargaining negotiations.

Questioned on the feasibility of more general annual-wage commitments, union leaders in both the men's and women's garment industries point to the competition between different localities and the corresponding differentials in wage rates. As a result, they fear that commitments forced upon any one area of the garment trade may lead to migration and an increase in insolvencies. One top union executive expressed the opinion that in the garment industry the guaranteed annual wage was not feasible unless it could be achieved on a statutory basis covering the industry as a whole across the nation.

The negation of the feasibility of the annual wage for the clothing business is especially evident in the ladies' garment field. It was pointed out that the women's clothing industry is characterized by multitudinous small shops, many of which merely get up lines for sale, while their garments are actually produced through contractors and jobbers. The life span of many firms is notoriously short. In recent years the movement of a large segment of the industry from the East to the Pacific Coast has increased the problems of an industry which suffers from, yet depends upon, the fickleness of fashions and

seasons. Under these conditions, the labor leaders see a reconstruction of the character of the industry itself as a prerequisite to any practicable application of industry-wide annual wages. This does not prevent them, however, from obtaining what concessions they can in the way of guaranteed minimum employment when the given situation appears to warrant such commitments. For, in the view of its leaders, there is no group in the industry which has a greater yearning for job security or has more reason therefor, than the workers in the shifting ladies' garment industry.

### The AFL Unions

Although the AFL unions as a whole are less favorable to the annual-wage idea, there are some notable exceptions.

*The hat, cap, and millinery industry.* A more optimistic view of prospects for the annual wage is taken by the union executives of the hat, cap, and millinery workers. Contributing to that attitude is the make-up of the industry. Two thirds of the firms are well-established, and some of them are large. Employment in certain branches of the industry, like the manufacture of felt hats, is stable. Stetson, for instance, employs 1,500 to 2,000 workers the year round. The millinery industry, on the other hand, is highly seasonable and not in anything like the favorable position of the other lines to convert the "yearning for security" into annual-wage guarantees.

The United Hatters, Cap, and Millinery Workers Union is an AFL affiliate. Nevertheless, its union literature has revealed more systematic thought on the problem of the annual wage than is to be found in the labor

press generally, not excepting that of the CIO unions.<sup>23</sup>

The *Hat Worker*, official publication of the union, offers one of the rare cases in which an AFL union has directly referred to the CIO demand for the annual wage and given it a sympathetic treatment. The question as to whether the guaranteed annual wage is feasible where an industry is subject to wide cyclical fluctuations is met as follows:

Steel belongs to the products most sensitive to the business cycles which kept our economy in a state of chills and fevers before the war. . . .

There was a time when considerations of this kind put a damper on the guaranteed annual wage idea. This time has fortunately past because the spirit of our age has changed. We have ceased to look with awe at business cycles and seasonal fluctuations as something ordained by a super-human power and not subject to change by human effort. We have begun to realize that business cycles, and to a certain extent, even seasonal variations of production are man-made and can, therefore, be overcome by organized human effort. In other words, we have learned to consider an economy of full employment not as a utopia unattainable in a free market economy, but as an object of practical policy.

With the mood of the people changed, the guaranteed annual wage has begun to lose its pipe-dream characteristic and has become a subject for concrete studies and considerations. . . .<sup>24</sup>

One may note at this point the similarity of view to that expressed by the leadership of the shipyard and auto workers. The guaranteed annual wage, in effect, is considered feasible under conditions of full employment. That being the case, emphasis must simultaneously be placed on assuring conditions that make for full employ-

<sup>23</sup> See A. Braunthal, "Is the Annual Wage a Pipe Dream?" *The Hat Worker*, June 15, 1945.

<sup>24</sup> The same, p. 10.

ment. It was done during the war; then why not an adaptation to meet the conditions of peace? The representatives of this AFL union also emphasize, along CIO lines, the potential influence of guaranteed, regular pay envelopes in reducing fluctuations of production.

One interview with representatives of the hat industry developed an interesting discussion on the complicating factor of unemployment compensation. In hat and cap manufacture there is a comparatively high rate of unemployment compensation, coupled with low prevailing wages in some branches of the industry. (The prewar factory average for annual take-home was placed by union representatives at \$800 to \$850 per year.) Many workers are therefore in the position where they actually fare better by being employed only part of the year with overtime, and drawing unemployment compensation for the remainder, than they would be if their employment were spread over the year under a guarantee of so many weeks with reduced hourly rates.<sup>25</sup>

So far, the question of annual wages has not come officially before the executive body of the Hatters Union; but it was said to be a common subject of discussion among the rank and file. No annual-wage guarantee has yet been obtained by any branch of the union, though there has been some success in negotiating limited minimum employment agreements. Among those mentioned is the agreement concluded between the millinery local and the firm of Kaufman & Company, Inc., at Richmond, Virginia. Union executives expressed confidence that certain parts of the industry are ripe for

<sup>25</sup> In the Wildman steel agreement, the guarantee of 30 weeks of employment was taken in conjunction with 20 weeks of unemployment compensation, to treat the agreement as one assuring 50 weeks of pay checks in the year. *Steel Labor*, Aug. 4, 1945, p. 11.

an annual-wage agreement. But considering the seasonal character of the hat and millinery industry generally, they do not see how they can take the initiative to push the demand for an industry-wide annual-wage agreement. They would like to see the CIO make further progress in spreading the coverage of industry with the annual wage, in which case the Hatters Union might be disposed to join in the general effort.

*The United Mine Workers.* Not only will unions differ from each other in their appraisal of the annual wage, but some unions may undergo a change in attitude as conditions in the industry are modified. The United Mine Workers of America offers a case in point. During the Appalachian Joint Wage Conference in 1937, the miners' union put forward an official proposal for a guaranteed annual wage. As published in the *United Mine Workers' Journal*, the official organ, the proposal read:

A minimum of two hundred days' employment each year shall be guaranteed for all mine workers employed in a round-house. Day men shall be paid the regular rates of pay provided in the district wage agreements for each day less than the guaranteed two hundred, and tonnage men shall be paid a basic \$6 a day rate for each day less than the guaranteed two hundred.<sup>28</sup>

The desire for regularization of employment evidenced in the above proposal was altogether understandable. Few industries suffer more extreme seasonal fluctuation, or sink lower in depression. In 1945, however, a query from the editors of *Forbes Magazine* brought forth from the editor of the *United Mine Workers Journal* a renunciation of annual-wage plans in general

<sup>28</sup> *United Mine Workers Journal*, Mar. 1, 1937, p. 3.

and of their application in the coal industry in particular. In his words, "The whole program presages the junking of the American way of life and the forfeiture of our industrial liberties in return for a promised security which cannot be guaranteed—a bureaucratic rule over our whole scheme of life."<sup>27</sup>

In support of this latter position, spokesmen for the mine workers have suggested that the institution of an annual wage would necessitate supervision of purchases of raw materials, seasonal price fixing, and production controls. These are seen to hold the possibility of hampering the miners in wage negotiations. The natural inference is that with the controls already obtained in behalf of the miners under the Bituminous Coal Act, with the welfare clause of the 1946 agreement, and with relatively high earnings in recent years, the miners would rather be free to negotiate for their own terms than to yield their bargaining advantages for the untenable guarantee of an annual wage.<sup>28</sup>

<sup>27</sup> *Forbes Magazine*, May 1, 1945, p. 24.

<sup>28</sup> Since the above was written, the position of the United Mine Workers leadership was elaborated in a letter to the author which stated in part: "I have no objection to and have at no time expressed the view that wage agreements voluntarily arrived at, providing annual wage payments, are not desirable in any industry. But the annual wage propaganda that has flooded the country of late has been predicated on something more than voluntary agreements. The arguments and analyses all lead up to Government participation, to arbitration and the sacrifice of free collective bargaining.

"It would be impossible, of course, to institute an annual wage policy in the coal industry. It would be difficult to put into effect an annual wage in any large district by reason of the fact that we have within a given district by-product, domestic and steam coals. The running time of the mines varies to such a great degree that it can not be done. If there is anybody who needs a guarantee of an annual wage it is the coal miner in the isolated mining community. But the insecurity of operating time prohibits even the 200-day minimum that was contained in the U.M.W.A. wage demands of 1937, which was a barter proposal. . . .

"Annual wage guarantees would minimize collective bargaining. It

*Construction.* The most uncompromising resistance to an annual wage is found among the members of the building trades unions. William Green, in discussing the position of the AFL with respect to the annual wage, has emphatically excepted construction as a special case in which the annual wage cannot be made effective.<sup>29</sup> The workers seem to be well versed in answers to the annual-wage proposal as it may affect their industry. Among the arguments are (1) that the union can supply jobs to its workers only as the contractor obtains contracts; (2) that construction, by its very nature, requires a sequence of skills; (3) that any forced scheduling to use the various skills simultaneously can only make construction excessively costly.

Throughout the argument of the construction workers, there runs a keen consciousness of the separate skills and a pride in one's own skill. The craftsmen see, under an annual wage, a compulsion to greater versatility, so that when excavating is over the excavators may turn roofers or plasterers, etc. To do this would be to break down the present structure of the various craft unions and their separate locals. Union officials also believe that maintenance of rates for particular skills would be threatened if an average rate based on annual employment had to

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would bring about compulsory arbitration. It would mean that working men seeking annual wage guarantees through Government boards or state boards would accept minimum rates of pay per day below that which they could obtain through free collective bargaining.

"As a matter of fact, this annual wage proposal was generated by some weak-kneed trades union leaders who have by past performance proven their inability to negotiate wage agreements on their own. They want Government boards and Government pressure and Government assistance in every way, shape, form or fashion regardless of the regimentation that follows, in order to perpetuate their inefficiency."

<sup>29</sup> *American Federationist*, April 1945, p. 3.

be worked out. Under prevailing conditions the labor leaders in construction seem to feel that they perform their highest service for the membership by maintaining craft standards and by bargaining for higher rates as well as protecting working rules.

On the question of changing the processes of construction, a major battle looms in the ranks of labor. The CIO, which has only a small membership among building trades, takes a radically different attitude from the AFL on the future of the building industry, including its adjustability to an annual wage. R. J. Thomas, of the United Automobile Workers, has also served as chairman of the CIO Housing Subcommittee. In that capacity he has voiced the position that annual wages should be introduced in the building industry along with a sweeping reform of production methods. To quote him in part:

. . . It would be highly beneficial to the builder, the worker, and all others concerned, to so reorganize the industry that employment and production would become continuous the year round. By operating continuously, the builder would be able to introduce more efficient methods and techniques, which would reduce his cost, including overhead. Year-round employment for the worker would permit a guaranteed annual wage, which would increase his annual income and at the same time give him a sense of security which would inevitably increase his productivity and result in lower unit cost. All improvement and reductions in unit cost must be passed on to the consumer in the form of better houses at lower sales or rental prices.<sup>30</sup>

Obviously the CIO, with scanty membership in the

<sup>30</sup> From the testimony of R. J. Thomas, President, United Automobile, Aircraft, Agricultural Implement Workers of America (CIO); Chairman, CIO Housing Committee, *Post-War Economic Policy and Planning*, Hearings before the Senate Special Committee on Post-war Economic Policy and Planning. 78 Cong. 1 sess. pt. 10, pp. 1678-79.

old-line building trades, but large membership in steel, shipyards, aircraft, and other lines that may turn to housing with mass production methods, would welcome changes in that direction. The desire for a change in technology is fortified by the emphasis of the CIO on the role of its members as consumers and the desirability of lowering the cost of housing. But to the construction craftsmen of the AFL, what threatens is the possibility of toppling the whole structure of protective devices, won through years of struggle by the building trades unions.

*The International Brotherhood of Electrical Workers.* To those who are interested in seeing how the local bargaining autonomy sought by AFL may become reconciled with the extension of the annual wage, the policy worked out in the International Brotherhood of Electrical Workers is illuminating.

Among the electrical workers, the personnel is divided between those who come within the scheme of the building trades in electrical installations and those in the electrical maintenance forces. There is some crossing over of workers from one group to the other; there are substantial differentiations in the rates of pay for different parts of the country; the control of the international union over its locals is a rather loose one. Hence the problem of the industry (as stated by its research director) is to allow for the adoption of a guaranteed annual wage by the maintenance workers, who could benefit therefrom, without hampering members who feel that the annual wage would be obtained at too great a concession.

The manner in which the two objectives are reconciled in the thinking of the electrical workers is illustrated by the tentative agreement worked out within

the joint Management-Labor Board of the electrical industry of the New York metropolitan area in December 1945. Under this program, electrical contractors may make agreements with the local union guaranteeing 50 weeks of employment with a forty-hour week. With New York rates, the basic weekly wage would be \$60, the equivalent of \$1.50 per hour. For those smaller or less well-established contractors who cannot make the commitments, and for those electrical workers who do not wish to tie to an annual wage, the corresponding rate for actual work performed would be \$2.00 per hour. In effect, the value of annual security is measured by a 25 per cent discount from the hourly rate without the guarantee.

Though the electrical workers' annual-wage plan has not yet become effective in any appreciable number of agreements, it is significant as a portent of a changing attitude within the ranks of construction workers. The annual-wage agreement worked out in the electrical industry may claim to be strictly in the AFL tradition. It seeks the advantage of the annual wage for the maintenance men, whose members average 47 years of age and who value year-around security above the wage differential. But it does not attempt to bind to an annual-wage plan either those workers whose personal preferences do not fit into the annual-wage discipline, nor those contractors who are not strong enough to make good an annual wage. Thus it stops short of the all-out CIO approach. That is to say, the International Brotherhood of Electrical Workers differentiates between the interests of different individual workers and firms in gauging the acceptability of a guaranteed annual-wage program.

### ATTITUDE OF WORKERS NOW UNDER ANNUAL-WAGE PLANS

Labor leaders in plants that have already adopted some scheme of wage stabilization appear to have fewer qualms about the annual wage as a depressant on union activity than do labor leaders who have not been party to such agreements. Generally, those under stabilization plans regard their present gains as preliminary to more extensive commitments still to be won.

Concerning the danger of losing touch with the workers' interests, evidence to the contrary is offered by the labor spokesmen in the Nunn-Bush Shoe Company, whose employees' union is an independent organization. They point to the fact that they share in making the decisions on wage policy; that the independent audit of the company's books together with the determination of what the company can pay, is a joint management-labor project under the Nunn-Bush plan for wage stabilization. The high degree of confidence in the integrity of the management at Nunn-Bush is interpreted as a natural result of the joint participation in the year-round, wage-sharing program. The point was also made that while the labor force has agreed on several occasions to a reduction in basic rates, when the reserves for wages ran low over the years, the net effect of co-operating in wage stabilization has been to give employees of Nunn-Bush a higher average rate of pay than prevails generally in the shoe industry.<sup>31</sup>

The labor organization at Nunn-Bush is not affiliated

<sup>31</sup> When the case of the Nunn-Bush Company was brought up in other labor circles, its merit was usually conceded, but it was occasionally discounted as a special case involving a very exceptional type of executive, and therefore not representative.

either with AFL or CIO. On the role of an affiliated organization, the George A. Hormel Company, now operating under an agreement with the United Meat Packers, CIO, provides testimony more nearly in point. The labor leaders with the CIO local, which has a collective bargaining agreement with the company, deny the implication that a loss of necessary union aggressiveness results from the annual-wage agreement. The operation of the plan is declared to be under continuous union scrutiny, to resolve grievances or other weaknesses in the plan from the standpoint of the labor force. The fact that the Hormel local was able to swing a resolution at the national convention of the meat packers, favoring the extension of the Hormel plan to other meat plants, would bespeak no lack of enthusiasm on its part. And the favorable reference to the Hormel plan in CIO literature as an example for other firms and industries would indicate that the meat packing company's program is officially viewed with approval.

There are very few clear-cut cases of a union agreement with an authentic annual-wage guarantee which has been in operation long enough to provide definite conclusions by the labor force measuring the net advantage gained. When it has been said that workers under the stabilization plans now operative are in general well satisfied with them, the personal element in the labor-management relationship seems as important as the formula in determining its success.

#### SUMMARY

The idea of industry-wide guarantee of an annual wage has so far not made appreciable headway in labor circles. All labor leaders have sympathy with the objective of job security that lies behind a guaranteed

annual wage. Rarely do we find labor opposition to the annual wage in principle. But that anxiety for security has not been converted into a united labor front on annual wages. That is partly due to the fact that labor is uncertain as to what the annual wage means and implies in practice.

The CIO, sponsor of the new campaign for the annual wage across industry, has not made up its own mind whether it stands for a definite departure from the voluntary programs by or with individual managements that have heretofore been referred to as annual-wage plans. Before the War Labor Board, in its brief on behalf of the steel workers, the CIO was clearly demanding compulsory annual-wage agreements covering all workers in the industry with a standard of 40 times the hourly rate for 52 weeks. Yet its official publications and its activities since that time suggest a back-tracking from the position taken in the steel case. The few recent applications of the program are in voluntary collective agreements varying not only with the industry, but with the characteristics of the given plant or local situation. In the few contracts made by the CIO, the labor leaders have expressed satisfaction with arrangements that have little resemblance to the over-all and unequivocal guarantee advocated before the War Labor Board. But this may be interpreted to represent tactical realism, rather than the abandonment of the program for more complete coverage.

In the AFL the emphasis is on "voluntarism" and local autonomy in labor agreements. AFL leaders express fear of the imposition of any general guarantees as an invasion of collective bargaining prerogatives of the union, threatening wage-rate increases and protective measures won after long struggle.

The labor representative in the field as a rule spends little time discussing the theory of transferable purchasing power or the potential effect of guaranteed wages on the flattening out of the business cycle. The leader of a particular union—especially when it has had a long experience with the struggles of the industry—quickly narrows down the issue to what effect the guarantee would have upon employment in his own area or jurisdiction.

The older unions, representing the highly paid skills, are sensitive to the possible weakening of their bargaining position through general application of the annual wage. They sense that to make good a comprehensive annual-wage program, will require a more mobile labor force. Men may be shifted from work that has given out to take on other work that is available. Boundaries between skills and departments will thus have to be crossed. Departmental seniority would yield to general plant seniority, in respect to both promotions and lay-offs. In return for continuity of work, average hourly rates may have to be readjusted. The old struggle between the skilled and unskilled is seen by the old-timers in labor as taking on a new fierceness under the annual wage. The older generation of union members is far more craft-conscious than are the newcomers.

Labor leaders in long-established unions exhibit a keen insight into the business problems and physical structure of the industries with which they are associated. The competition among small firms, the rivalry between geographic areas, and the precarious lifespan of the establishments are clearly recognized. Those that have burned their fingers in the past trying to standardize yearly wages fear insolvencies, migration, and consequent loss of employment if uniform commitments are

imposed. To the labor leader in such industries, the annual wage would be practicable only if it could be legislated across an entire industry, with government underwriting and subsidies to submarginal firms. The element of government underwriting is frankly introduced in a precarious industry like shipbuilding, where it is recognized that nationalization of the industry may be required in order to make the annual-wage commitments stick.

The protection of the hourly wage rate is still uppermost in the minds of the run of labor leaders. They are not inclined to yield it for the promise of a more even distribution of income over the year. Those faced with the immediate issue of raising sub-standard wages—as in textiles—regard the annual wage as a luxury to be sought after a more satisfactory rate structure has been established. Experienced tacticians in labor warfare who doubt the capacity of their industry to absorb annual-wage commitments—notably in the case of the United Mine Workers—prefer to protect their workers by other means. Their emphasis has been on personnel rules, production methods, market controls, and welfare provisions designed to raise labor income and at the same time enhance union authority.

Even where the greatest sympathy is shown for extension of annual-wage guarantees, the recent demand by certain unions for a nation-wide system of guaranteed wages is, nevertheless, viewed as a device in the first instance to improve labor's bargaining position. This view is reinforced by the realization that the most conspicuous demand was made on behalf of an industry where the fluctuations of production and employment are the greatest—an industry in which any guarantee affecting all workers might have to be reinforced by

government orders, government regulation of prices, processes and production, and some degree of control over the channels of consumption. Such control means to the average labor leader a narrowing of the area for collective bargaining, which provides the chief incentive to union membership.

On the whole it would appear that organized labor is still thinking chiefly in terms of step-by-step progress involving the raising of the levels of employment and wages, provisions for longer notice of layoffs, higher unemployment compensation and, in general, the taking of full advantage of every favorable bargaining opportunity as it arises. Very few unions seem prepared at this stage to put their faith in comprehensive annual-wage guarantees on an industry-wide basis.

## CHAPTER III

### EXPERIENCE OF FIRMS WITH STABILIZATION PLANS

A practical concern for the economic stability, health, and peace of mind of the workers is well-established as a necessary part of sound management policy. It is evidenced in the labor programs of the companies which provide for group insurance, savings and pension plans, layoff notice, dismissal compensation, vacations with pay, sick leave, health conservation and medical care. From that standpoint, the problem of establishing an annual wage is not one of creating a new point of view with respect to the security of employees, but rather one of determining how far it is feasible to supplement measures already taken in that direction. That may be more closely related to the degree of stability of the industry, company, or occupation involved, than to the good will of the management. To know how far a company has extended itself in the establishment of an annual-wage program, one is obliged to read into the whole setting in which the firm and industry are located.

The majority of firms, regardless of whether or not they have thought in terms of formal annual guarantees, could claim that their employment is largely stabilized. Common observation on this point is supported by the fact that under the partial coverage of the Social Security Act, in the prewar year of 1940, more than 25 million workers earned credits for taxable wages during all four quarters of the year. Among the firms with the most stable employment, the question of formalizing the condition into an annual-wage guarantee is least likely to be

pressed. Among others, a distinction is drawn between making the effort to stabilize employment and wages, and assuming the risk of a formal pledge or guarantee of continuing regular wages.

But there is growing recognition that even workers who have steady jobs may be worried by the fear of losing those jobs. The knowledge of a written pledge of continuing wages, even when hedged about with essential safeguards, may increase the confidence of the worker in his status as a homemaker and citizen. It can by the same token give fuller meaning to the position and responsibilities of the worker in relation to the operation of the business.

The largest working forces already operating under annual-wage plans are in companies whose programs were initiated by the management. Organized labor, however, has long manifested an interest in annual-wage commitments. In fact, the oldest known example of an annual-wage plan involved a union agreement with the companies in the National Wallpaper Association. That agreement, dating back to 1894, committed the employers to provide 11 months' work in the year; in one form or another the agreement continued until 1930.<sup>1</sup> Thus, the impetus to the formulation of annual-wage guarantees has come from both sources—from the alertness of management to the importance of worker security, and from the demand of labor unions in collective bargaining negotiations.

#### TYPES OF PLANS

Descriptions of the annual-wage plans of the firms which have pioneered in formal guarantees are available

<sup>1</sup> See Bryce M. Stewart, *Unemployment Benefits in the United States* (1930), p. 371.

in current business literature, and considerable space has recently been given to such plans in popular periodicals. There is no need of repeating a firm-by-firm account in this context. The present object is, rather, to cull from representative cases the characteristics which are significant for judging how far the experience of the firms with wage stabilization plans can be carried over into the broader application of the guaranteed annual wage.

The term "guaranteed annual wage," if taken literally, would mean a pledge to provide employees with a full-time pay check at regular pay periods throughout the year. This was the kind of annual wage requested in the case before the Steel Panel of the Labor Board. There the union asked that all workers who had been attached to the steel companies for three months or more, should be guaranteed for the life of the contract, wages for 52 weeks of 40 hours each at the hourly rate to be agreed, with overtime rates for hours above 40 in any week. Such an inclusive guarantee of an annual wage—covering the amount of employment, the regularity of pay check, and the wage rate—is rarely to be found either in union agreements or in management-initiated programs.

The so-called annual-wage plans of the companies which have them do not fit too neatly into classification. A given plan may qualify under more than one heading. What is more, the most liberal and trustworthy plans, in practice, may be hedged with escape clauses that are hardly likely to be invoked; while those with the biggest paper pledges may in fact be of very limited application, to persons least in need of such protection. It may be clarifying, nevertheless, to think of so-called annual-wage plans as falling into the following areas, based on where the emphasis seems to be put: (1) employment guaran-

tees—assurance of minimum working time; (2) annual-wage guarantees—specific year-round pay checks; (3) supplementation of earnings in slack periods.

*Employment guarantees.* Essentially, the employment guarantee is designed to assure the employee that he will have enough work during the year to justify his attachment to the company as a regular member of its pay roll. (Employment guarantees combined with guarantee of specific income would not be in this category; they would classify as annual-wage guarantees.) The period of the guarantee may vary from 1 week to 52 weeks.

The principle of the guaranteed work week, as applied to the packing industry, the hat industry, and a number of others, is not an uncommon feature of union agreements. The typical arrangement is that if the worker is called to work at the beginning of the week, he must be paid for the whole week, whether or not full-time work is actually given to him. Perhaps the largest firm to operate under the guaranteed work-week commitment is Swift & Company. The number of hours accepted by Swift as a full work week has varied between 32 and 40, depending upon business conditions. In some cases, notably that of the Quaker Oats Company, the work month is the basis of the commitment; any employee taken on during the month is guaranteed at least 140 hours of work or its pay equivalent for that month.

Guarantees of such limited periods would hardly justify designation as annual-wage plans. They belong in a discussion of the annual wage only because they have proved effective in some industries to bring about substantial regularity of annual employment and earnings.

More definitely in the area of annual-wage security is the employment guarantee which pledges a minimum

number of work hours during the year or a minimum number of weeks, or so many weeks of so many hours each of employment. It would seem reasonable to cite an employment security plan as an annual-wage plan, when the minimum employment guaranteed is as much as 1,200 hours per year.<sup>2</sup> This is the minimum guaranteed in the CIO steel agreement made with the Wildman Manufacturing Company—the first to be negotiated after the steel case before the National War Labor Board.

The best known commitment of a large firm guaranteeing year-round employment to a considerable number of workers is that of the Procter and Gamble Company. Inaugurated in 1923, the Procter and Gamble plan now provides a pledge of 48 weeks of employment during the year to those with two consecutive years of service. The spice and extract house of McCormick & Company, in Baltimore, has applied its guarantee of 48 weeks of work per year to any worker who has been with the firm for a probationary period of three months and proved satisfactory. It does not guarantee the length of the work week, but has succeeded over recent years in holding to a forty-hour week. In a number of the union agreements for annual employment, chiefly with small retail establishments, the agreement covers both the number of weeks guaranteed and the minimum number of hours per week. This minimum week ranges from 21 hours to 50 hours, with the forty-hour week the most typical.<sup>3</sup>

<sup>2</sup> The obvious basis of this minimum is that the 1,200 hours would make 30 weeks of 40 hours each to which 20 weeks of unemployment compensation would provide some security of income for 50 weeks in the year.

<sup>3</sup> National Industrial Conference Board, *The Management Almanac 1946*, p. 204.

A more flexible type of employment guarantee is that which provides for a minimum number of hours during the year without indicating the number of weeks over which those hours will be spread. Such a basis makes it possible to adjust hours to the fluctuations from peaks to lows which prevail in certain seasonal industries.

The hours guaranteed over the year under this arrangement range from 1,200 up to the maximum of 2,080 hours set by the federal Fair Labor Standards Act. Where the plan is based upon total hours per year, it is possible to make cash advances to the employee to supplement earnings during the slack period, to be offset by the excess hours put in during the busy seasons. Under section 7B-2 of the Fair Labor Standards Act, agreements are made between employers and bona fide unions whereby in return for the guarantee of a full-time work year, overtime payments need not be made for hours over 40 and up to 56 in any week, provided that the annual working time does not exceed 2,080 hours.<sup>4</sup>

Where the number of hours of available work falls below the number pledged, the difference may be made up in part or in full. The benefits available to the employee under unemployment insurance and outside earnings are usually taken into consideration. An example is the plan of the Parker Manufacturing Company of Worcester, Massachusetts, which guarantees 1,800 hours per annum to employees with five or more years of service. The guarantee makes good the difference between the sums earned for actual hours worked, plus unemployment insurance benefits and outside earnings, and the aggregate of 1,800 hours of pay. The minimum of 1,800 hours of guaranteed work includes vacation allowances.<sup>5</sup>

<sup>4</sup> See section on Fair Labor Standards Act in Chap. 8.

*Guarantee of annual income.* In the examples of guaranteed employment plans cited above, the emphasis is on stabilizing the work program so that the workers regularly attached to the industry may have the assurance of a given amount of employment. But there is no guarantee of a specifically stated amount of wages, except in so far as the assurance of the work hours carries with it the assurance of pay for the work. The employment guarantee does not necessarily imply that the weekly pay check will be uniform, nor that employment will all be at the same skill or at the same rate. But in the last analysis, what most concerns the worker is the size of his pay check and the regularity of its payment. His ability to plan the family's expenditures depends upon knowing how much he can count on from week to week and from month to month. Hence, in a number of industries which have seasonal variations in volume of work, the effort is nevertheless made to provide a weekly pay check of equal or nearly equal amount during slack as well as peak periods.

In a complete annual-wage guarantee, full-time wages are assured for 52 weeks to all employees. This ideal is realized in varying degrees, from full-time pay plans covering a limited number of eligibles to partial guarantees for the bulk of the working force.

The nearest approach to an unconditional guarantee of regular weekly income for a large industrial force is to be found in the meat-packing organization of George J. Hormel & Company. In that case an estimate is established at the beginning of each fiscal year of the total output expected during the next twelve months; its equivalent is calculated in number of workers required

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<sup>8</sup> Parker Manufacturing Co., *People, Jobs and Opportunities* (1945), p. 14.

to achieve that output and the amount of their annual base earnings at prevailing rates. The seasonal factor is important in meat packing. Where the amount of work falls below the average, the worker is indebted to the firm for the deficiency in hours. When he works more than the standard number of hours or produces more than the equivalent of standard output, he is credited with the excess. If the employee has worked beyond the estimated standard equivalent of output, he receives appropriate premium compensation for it. The Hormel Company, after years of progress in reducing the "extra gang," has now reached the point at which everyone on the pay roll of the main plants is fitted into the production schedule so that he can be covered by the annual-wage commitment.

Of equal interest as an example of the successful application of an annual wage plan with an approach to continuing security, is the program of the Nunn-Bush Shoe Company of Milwaukee. The plan, which has been in operation since 1935, differs from other known plans in that the annual pay of the workers is dependent upon the sales record of the company. It had been ascertained that over a number of years the annual pay roll was running between 19 and 20 per cent of total sales. Accordingly, the wages of the workers have been prorated on a basis that gives consideration to customary differentials among the various classes of workers. A weekly pay check of uniform amount is received by the eligible employee through the year. The difference between the sum of the pay checks and actual earnings is transferable to a reserve fund in surplus years, which fund is drawn upon to maintain wages in less profitable years.

A plan like that at Nunn-Bush obviously calls for a high degree of mutual confidence between employers

and employees. That confidence is reflected in the independent audit of the firm's books, the expense of which is borne jointly by the management and the labor force. On the basis of the annual audit, the workers at Nunn-Bush have on three occasions accepted a reduction in their base rates in order to prevent an excessive deficit in the reserve for wages. In similar spirit, the employees have agreed to price reductions which meant a smaller amount to labor in the interest of maintaining total volume, and hence the total amount of sales.<sup>6</sup>

The Nunn-Bush program is less comprehensive than Hormel's in that the unconditional guarantee is for the regular employees—those with a year or more of continuous service. The extra group is subject to layoffs to protect the full-time wage of the regular employees. It is notable, however, that in relatively poor years the regular employees have moderated their own demands in order to make provision for the workers without tenure.

A third example of a near approach to the true annual-wage plan for a large working force, is offered by the mail-order house of Spiegel, Inc., of Chicago, covering some 6,000 employees. To workers with one year's service the guarantee is for 52 weeks, with 40 hours' pay per week in the case of male employees and 36 hours'

<sup>6</sup> The advisability of using sales as a base upon which the pay-roll percentage should be counted has been questioned. It has been pointed out that the most important factor in determining costs in the shoe industry is the price of leather; and that the fluctuations thus represented in total price is not a reflection of the employee's contributions. In answering this criticism, Mr. Nunn has agreed that in some lines of industry the value audit by labor might be a more suitable factor to determine the pay checks of the workers. He contends, however, that price of shoes has run sufficiently close to the cost-of-living index so that on the whole a satisfactory basis for wages has been attained, through the use of the sales base from both labor and capital side of the firm.

pay for female employees. The work deficits in short weeks are made up in peak season. But no wages are held back in peak season against possible future deficits, and all indebtedness for wage advances is canceled at the end of the fiscal year. This plan has been in operation since January, 1939.

Scattered examples of unconditional annual-wage agreements may be found in the retail trades involving very small firms with a probable aggregate of not more than 500 employees for the 82 union agreements registered.<sup>7</sup>

In the more typical cases, the nature of the operations or the character of the industry has compelled a stricter demarcation of eligibility under a specific annual-wage plan. The company is generally faced with the dilemma of guaranteeing much to a few or offering less to a greater number. If it makes its commitment conservative enough to be safely carried even through a depression, the terms offered may have little special attraction for most of the workers. If it makes a commitment that offers definite security to the bulk of the employees, there is the danger of later disillusionment with the forced abandonment of the plan. As a result, most of the guarantees of annual wages are found to apply to the nucleus of workers who have already enjoyed continuous employment with the firm for a number of years. This is true not only of the annual-wage plans that are initiated by management but also of those contained in union agreements.

A union agreement illustrating the point under discussion, is one embodying a four-year guarantee of 50 consecutive weeks of full-time employment with a definitely

<sup>7</sup> National Industrial Conference Board, *The Management Almanac 1946*, p. 206.

assured income. The agreement is between the Wholesale and Warehouse Union Local 65 and the Woolen Jobbers Association. The limitation on this agreement is that it covers only a basic crew. The escape lies in the provision for the reduction of the basic crew if business conditions do not allow for the maintenance of the present number.<sup>8</sup> Determination of who shall constitute the basic crew is worked out between union and employer representatives. Arbitration provisions are invoked in the event that the union and employer representatives cannot agree.

*Subventions to supplement low earnings.* Among companies that regard the full-fledged annual wage as inapplicable to the given situation, various lesser means of safeguarding the worker's income and financial stability have been tried. Among them are employee-thrift plans, stock-purchase plans, and mutual-benefit programs to provide loans for emergencies. A natural extension of such financial aids is found in various plans for supplementing of low or irregular earnings designed to prevent the income of the worker and his family from running below a reasonable minimum.

In the case of the International Harvester Company, a fund is established consisting of the employee's share

<sup>8</sup> Section 4C of the agreement reads: "Each employer agrees to continuously employ a basic crew of union employees in his employ. This basic crew shall not be subject to layoffs during the terms of this agreement. Each employer shall establish a basic crew in his respective establishment by agreement with the union and the number in such minimum basic crew shall be inserted in each individual agreement with the respective employer. The number in the basic crew shall not be reduced unless there has been an appreciable reduction in business for other cause, which will make it impossible for employer to continue employing all the workers of the basic crew. The employer shall make such request from the union in writing. Should the union fail to agree to said reduction within 72 hours after such request the matter may be submitted to arbitration pursuant to the terms of this agreement."

in the allocation of profits as well as a contribution from the company; this fund is used to supply make-up pay for under-employed workers up to 60 per cent of full-time weekly earnings. Similarly, under the plan of the Armstrong Cork Company, employees with several years of service behind them are entitled to cash advances in layoff periods up to 60 per cent of their standard wage. This is in effect a twenty-four-hour minimum weekly wage. The advance is made up by cash deductions of earnings above 24 hours per week, in the case of certain classes of employees. For those with greater seniority, the make-up pay advanced by the firm need not be repaid; the maximum available to the employee depends on his length of service, up to ten years. Private unemployment insurance is also included in the Armstrong program.

Sears Roebuck carries its cash advances in make-up pay to 40 hours per week. Its "constant wage" program justifies that title for the bulk of its employees, those with more than 24 weeks of services, except that there is no restriction on the layoff of employees as business slackens.

The guarantee of a minimum wage through the year with a limit on the aggregate, is illustrated in the agreement between the Richmond Piece Dye Works and the CIO Textile Workers Union of Richmond, Virginia. Under that agreement, workers with one year's service behind them are guaranteed a minimum of \$18 per week for male employees and \$15 per week for female employees. This arrangement, for which the company is responsible up to an aggregate of \$8,000 per year, represents an advance from the earlier agreement in which the minimum was \$15 and \$12 per week, respectively,

and the aggregate commitment was for \$5,000. The provision of a specific limit of aggregate liability is more likely to occur in union agreements where the maximum guarantee has been sought through collective bargaining, than in management-initiated plans where safety margins have been fully considered in the type of program offered.

#### LIMITATIONS OF THE COVERAGE

The total impact on security of employment of the annual-wage plans now in operation is as yet hardly appreciable, except perhaps for their value in blazing a trail. This will be evident as we consider the firms, employees, and industries that are chiefly involved, and the limitations that attach to the nature of the commitments.

#### Numbers and Industries Covered

The number of firms that have found it practicable to undertake any type of annual-wage commitment, either on their own initiative or in response to union demands, is at most 3 per cent of the firms with appreciable employee pay rolls. The employees covered under the known plans or agreements apparently constitute a fraction of 1 per cent of the wage-earning population. In the most extensive effort to ascertain the number of firms with some kind of wage-stabilization commitment, the Bureau of Labor Statistics contacted some 90,000 establishments with a mail questionnaire in April 1945. Of this total, 1,400 firms indicated by their replies that they had given some attention to the problem of employment and wage stabilization. When these were followed up by personal visit, it was found that 400 of the firms had some plan for increasing wage security.

Only 60 of them, however, came close enough to the concept of an annual-wage program to justify a more lengthy interview by the Bureau of Labor Statistics on behalf of the study currently sponsored by the business advisory committee of the Office of War Mobilization and Reconversion.<sup>9</sup>

From a representative sample of 2,700 companies replying in 1940 to an inquiry by the National Industrial Conference Board, 32 firms, or 1.2 per cent reported that they operated under an employment-guarantee plan; another 40, or 1.5 per cent, reported that they had what they regarded as an annual-wage plan. Of the 2,216 manufacturing companies in that total, there were 28, or 1.3 per cent, reporting an employment-guarantee plan, and 14 manufacturing companies, or 0.6 per cent reporting an annual-wage plan. Thus, 2.7 per cent of all the companies and 1.9 per cent of all manufacturing companies indicated in 1940 that they had some type of plan for stabilizing wages.<sup>10</sup>

A study undertaken for the National War Labor Board in 1944, uncovered "55 plans guaranteeing substantial periods of employment or regular pay, inaugurated in the last 25 years."<sup>11</sup> Among them were six plans involving large labor groups, which had been abandoned.<sup>12</sup> About two thirds of the plans were repre-

<sup>9</sup> In the study being made for the OWMR, an acceptable plan for consideration within the general scope of the annual-wage problem is one which guarantees as much as three months continuous employment during the year.

<sup>10</sup> National Industrial Conference Board *Personnel Activities in American Business*, Personnel Policy Study No. 20 (1940).

<sup>11</sup> *Guaranteed Employment and Annual Wage Plans*, Prepared by Alice Lenore Nielsen, National War Labor Board Research and Statistics Report No. 25, Aug. 25, 1944, p. 1. (mimeo.)

<sup>12</sup> These six are the plans of General Electric, General Motors, the

sented in 24 union agreements. Those involving the large companies (with 1,000 or more employees) were management-initiated, although several were later incorporated in union agreements.

Early in 1945 the Bureau of Labor Statistics issued the results of an examination of all union agreements to which it had access—6,500 of them being from manufacturing industries alone. The number of employed workers covered by these agreements was approximately 8 millions, of which 6 millions were in manufacturing industry. As a result of that examination, the Bureau estimated that approximately 42,500 of the workers covered by the union agreements were given some form of guaranteed employment or annual wages. About 30,000, or nearly three fourths of the total, were on the pay rolls of firms other than in manufactures—mainly in mercantile lines. Thus, of the 6 million workers covered by the union agreements in manufacturing industries, only 12,500—distributed among 142 companies—had guarantees of employment or annual-wage commitments. This would mean that about 0.53 per cent of all the employees under the wage agreements and a little more than 0.2 per cent of the manufacturing employees were under guarantees.<sup>18</sup>

A break-down of the union agreements in manufacturing gave less than 6,000 employees under annual guarantees and about 6,500 under partial guarantees covering less than the full year. A detail of the break-down is given in the table on page 64.

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Cleveland Women's Garment Industry, National Wallpaper Association, a printing plant involving a total of 300 employees, and Hart Schaffner & Marx.

<sup>18</sup> "Guaranteed Employment and Annual Wage Provisions in Union Agreements," *Monthly Labor Review*, April 1945, p. 708.

**CHARACTERISTICS OF GUARANTY PROVISIONS IN COLLECTIVE  
AGREEMENTS IN MANUFACTURING INDUSTRIES<sup>a</sup>**

| Guaranty  | Number<br>of<br>Agree-<br>ments | Number<br>of<br>Com-<br>panies<br>Covered | Number<br>of<br>Em-<br>ployees<br>Covered |
|---|---------------------------------|---|---|
| <b>TOTAL AGREEMENTS ANALYZED, HAVING<br/>GUARANTY PROVISIONS.....</b> | <b>131</b>                      | <b>142</b>                                | <b>12,500</b>                             |
| <b>ANNUAL GUARANTY.....</b>   | <b>76</b>                       | <b>88</b>                                 | <b>5,850</b>                              |
| Covering all or most employees.....                                   | 7                               | 6   | 5,350                                     |
| Unconditional.....  | 5                               | 4   | 5,100                                     |
| Conditional.....  | 2                               | 2   | 250                                       |
| Covering particular occupational groups..                             | 69                              | 82  | 500                                       |
| Unconditional.....  | 10                              | 23  | 75  |
| Conditional.....  | 59                              | 59  | 425                                       |
| <b>LESS THAN FULL-YEAR GUARANTY.....</b>                              | <b>55</b>                       | <b>54</b>                                 | <b>6,500</b>                              |
| Covering all or most employees.....                                   | 18                              | 17  | 6,300                                     |
| Unconditional.....  | 1                               | 12  | 50  |
| Conditional.....  | 17                              | 5   | 6,250                                     |
| Covering particular occupational groups..                             | 37                              | 37  | 200                                       |
| Unconditional.....  | 20                              | 20  | 100                                       |
| Conditional.....  | 17                              | 17  | 100                                       |

\* Prepared in the Bureau of Labor Statistics, Industrial Relations Division by Abraham Weiss under the direction of Florence Peterson, "Guaranteed-Employment and Annual-Wage Provisions in Union Agreements," *Monthly Labor Review*, April 1945, p. 711.

It will be noted from the table that the bulk of the employees included under agreements containing annual guarantees were in four companies. Two of the companies, Hormel and Nunn-Bush, account for more than 4,000 of the workers in that category.

Finally, we have the survey made by the National Industrial Conference Board early in 1946, which covered 125 guaranteed-wage and employment-guarantee plans, including both active and discontinued. It found that the majority of the plans guaranteed minimum employment, either annual or for short periods, and that only 18 or about one seventh of the total came under the heading of annual-wage plans.

It will be noted that of the outstanding examples of active company programs for guaranteed employment or guaranteed wages, practically every one was in the consumer goods industry. Of the three companies with

**TYPES OF GUARANTEE PLANS BY DURABLE AND CONSUMERS' GOODS CLASSIFICATION<sup>a</sup>**

| Type of Plan  | Total  |                       | Consumers' Goods and Services |                       | Durable Goods |                      |
|---|--------|-----------------------|-------------------------------|-----------------------|---------------|----------------------|
|   | Number | Per Cent of 125 Plans | Number                        | Per Cent of 100 Plans | Number        | Per Cent of 25 Plans |
| Annual-wage plans.....  | 18     | 14.4                  | 13                            | 13.0                  | 5             | 20.0                 |
| Annual-employment guarantee   | 66     | 52.8                  | 60                            | 60.0                  | 6             | 24.0                 |
| Employment guarantee for substantial periods, but less than 1 year..... | 25     | 20.0                  | 20                            | 20.0                  | 5             | 20.0                 |
| Wage-advance plans.....   | 7      | 5.6                   | 3                             | 3.0                   | 4             | 16.0                 |
| Employment guarantee for short periods.....                             | 9      | 7.2                   | 4                             | 4.0                   | 5             | 20.0                 |
| Total.....  | 125    | 100.0                 | 100                           | 100.0                 | 25            | 100.0                |

<sup>a</sup> National Industrial Conference Board, *The Management Almanac 1946*, p. 205.

the largest number of employees under a guaranteed annual wage, Hormel was in meat; Nunn-Bush in shoes; and Spiegel, Inc. in retail merchandise. The largest groups of employees covered by comprehensive annual-employment guarantees would include Procter and Gamble in soaps and fats; Berkshire Knitting Mills in hosiery; and the McCormick Co. in spices and extracts. These are all lines in which there is comparatively little year-to-year fluctuation in demand. The fluctuations to be ironed out are primarily seasonal, are predictable, and therefore are subject to arrangements for wage leveling or the make-up of stock in slack times for the months of high demand.

The table on page 65 taken from the recent Conference Board study, separates the guarantees in durable lines from those in consumer goods. It indicates, as might be expected, that a great majority of the plans were in the consumer goods field. The durable goods lines were represented by five annual-wage plans and six guarantees of annual employment. Indeed, there is not a single large firm—that is, one with 500 or more employees—in the durable goods field with a comprehensive annual-wage or employment-guarantee commitment. The nearest approach is that of the International Harvester Company, with the partial benefits granted by its employee-savings and make-up pay plan. In other words, the area of development of annual-wage programs is confined, with few exceptions, to the lines of industry in which the employees have the least occasion to be concerned with irregularity of wages.

### Restrictions on Commitments

Within the rather limited area of operation of the annual-wage plans, there is nevertheless a demonstration of the degree of flexibility in the arrangements required to meet the situations of particular companies or industries. Annual-wage plans are as instructive for the safeguards and escape clauses with which they have been surrounded, as they are for the positive commitments which they involve. The protective measures are visible in the eligibility rules, the limited period of the guarantee, and adjustments provided to meet changes in business conditions.

*Eligibility.* In practically every instance, the guarantee of minimum annual employment or wages is limited to a group of eligibles based on length of service or type of work. In management-initiated plans, the basis of

eligibility is generally the length of service. In union agreements the workers coming under the guarantee may represent the craft or other special membership coming under the particular union without affecting the general body of employees in a given firm.

Given an industry of a particular type, the terms of the guarantee may be expected to represent a compromise between including the largest possible number of workers and making the most liberal terms of guarantee. Thus, in nearly all cases where 52 weeks of 40 hours each or annual-wage equivalents are specifically guaranteed, the guarantee applies to a basic crew—a group ordinarily consisting of the employees with so high a seniority that their jobs would have relatively high security in any event. It will also be found that the unequivocal guarantees of 52 weeks of full-time work and wages apply to small firms, and the great majority of them in distributive lines.<sup>14</sup>

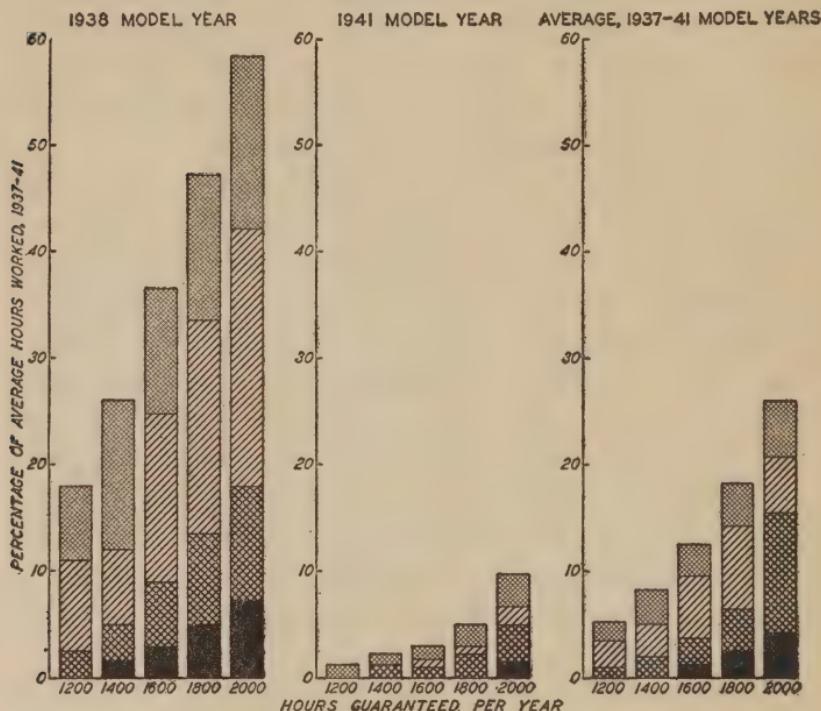
The interrelationship of number of workers covered and the liberality of the guarantee is illustrated in the modifications found necessary even among the largest and most stable firms. Thus, Procter and Gamble, during a period of declining business, decreased the number of covered employees from those with six months or more of service to those with two years or more of service, in order to hold to the terms of the guarantee. On the other hand, General Electric, which had guaranteed 1,500 hours of work to a large proportion of its workers in 1929, had to drop to 1,250 hours in 1933 in order to prevent extreme layoffs.

General Motors has analyzed its employment experi-

<sup>14</sup> The aggregate of 82 firm agreements was 500 employees. "Guaranteed Employment and Annual-Wage Provisions in Union Agreements," *Monthly Labor Review*, April 1945, pp. 707-27.

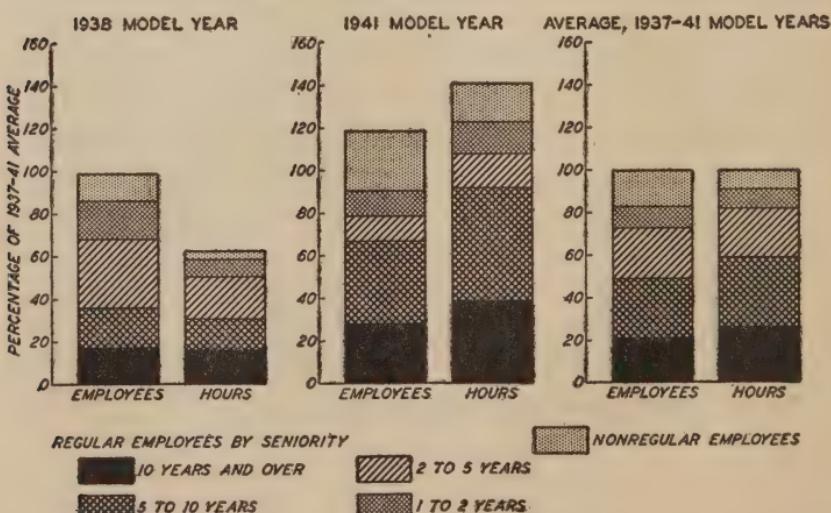
ADDITIONAL HOURS REQUIRED TO SUPPORT SPECIFIED  
GUARANTEES TO WAGE EARNERS IN GENERAL MOTORS  
CAR AND BODY DIVISIONS

(As a percentage of average hours worked per year, 1937-41)



DISTRIBUTION OF EMPLOYEES AND HOURS WORKED  
BY SENIORITY

(As a percentage of average per model year, 1937-41)



ence to discover how many hours of employment could have been guaranteed to employees at various levels of seniority, for the periods covered by successive models, 1936 to 1941.<sup>15</sup> The results of that analysis—assuming alternative hourly guarantees from 1,200 to 2,000 hours with given seniority levels—are shown in the accompanying chart. In each case the number of hours that would have had to be made up is shown as a percentage of the aggregate number of hours of employment actually furnished in the given year.

What can be immediately observed is the substantial difference between the obligations entailed by the guarantee during a poor model year like 1938, and the amount that would be applicable to a year of brisk business covered by model year 1941. Taking the five-year average, however, it is seen that if the company had been on a guaranteed-employment program during the prewar years 1936-41, a guarantee of 1,200 hours to employees with more than one year's service would have required additional make-up pay of not more than 5 per cent. If the guarantee had been for 1,800 hours, a limitation of eligibility to those with five years' service would have given about the same result. But if the firm had guaranteed 2,000 hours a year, only those with ten years or more of service could have been included if the company make-up pay were held to 5 per cent of the guaranteed working hours. Going to the full length of a 2,000 hours' guarantee to all employees with one year of service would have meant, for those five years, a make-up of employment equivalent to about one fourth of the

<sup>15</sup> The annual divisions are not by calendar year but by the twelve-month periods during which the models of the given years were in production. The 1937 model is omitted because of the disruption of the employment pattern by extensive strikes during that period.

total man-hours worked; and that would still have left 17 per cent of the employees without benefit of an employment guarantee.

The analysis is of course hypothetical; the chances are that with a guarantee to be met, a different employment pattern would have been adopted.

Two of the firms in the durable goods field—namely, the Wildman Manufacturing Company, and the Crocker McElwain Company required five years' service to qualify for the employment guarantee. The use of years of service as the test for eligibility is natural, since it corresponds with seniority provisions that are normal to a number of industries; it may be taken as an indication of the degree of mutual loyalty developed between employer and employee.

In union agreements length of service is likewise employed, although occasionally all membership of the union representing a particular craft will be included. From the standpoint of the management, the guarantee to members of a given union is a means of making sure that the key employees—those most difficult to replace—are retained. Among the skills to which special union agreements have been applied are textile machine printers, engineers, electroplaters, and foremen.

A privilege of prime importance to firms guaranteeing full-time work is the opportunity to transfer workers from their customary department to other departments in which they are most needed. The transfer privilege is an essential feature of the Hormel and the Procter and Gamble plans. The privilege of transfer is the alternative to the further limitation of the eligible force, or reduction in hours guaranteed.

*Period of the guarantee.* Reference has already been made to the leverage which firms allow themselves in

guaranteeing something less than the full 52 weeks or 2,080 hours during the year. The number of weeks guaranteed varied from 40 to 52 depending upon length of service, in the plan of the Namm Department Store. In the steel union's agreement with the Wildman Manufacturing Company, the guarantee of 1,200 hours is regarded essentially as a base guarantee of 30 weeks of 40 hours each, with the thought in mind that through its unemployment compensation payments the firm is also guaranteeing partial payments during the 20 weeks of unemployment compensation benefits to which the employee laid off is entitled under social security. Some firms which actually provide a work week of 40 hours, nevertheless, limit the number of hours formally guaranteed to anywhere from 24 to 38 hours. In the case of the Hormel Company, the number of weekly hours guaranteed has varied between 36 and 40. The Morton Salt Company has included 32 hours in each week for guarantee purposes. In other cases, full pay is guaranteed up to a certain number of weeks and only partial pay thereafter.

The time limit of one year applies in the great majority of the guarantee agreements. This is the common method of protection against unforeseen changes in business conditions or in the market for the product. In cases where no fixed time limit is set for expiration of the guarantee, the firm reserves the right to re-examine the program and make changes as needed. This right may be reserved unconditionally, as in the case of Procter and Gamble, or the agreement may carry a notice period, usually 60 to 90 days. In the example of the four-year guarantee agreement made with the Wholesale and Warehouse Union, previously cited,<sup>16</sup> the safeguard was

<sup>16</sup> See note, p. 59.

the privilege of reopening the question of who were to be included on the eligible list. Other contingencies commonly noted in security agreements under which the firm may end or suspend the contract, include acts of God, war, fire and flood, strikes, sale of firm, and liquidations.

Some of the other protective devices used by firms to prevent serious deficits or insolvency have to do with limitation of the total financial liability, or the exercise of certain privileges of modification besides those already mentioned.

*Limitation of financial liability.* Some firms have set up a special fund to take care of financial obligations which they may incur under the guarantee and provide a limit upon the fund for that purpose. For example, the Spiegel corporation, with a relatively stable and predictable total operation in the mail-order field, is said to limit its reserve fund to approximately \$150,000, or at least uses that figure as a warning of the necessity to modify its guarantee. The Armstrong Cork Company limits the fund for its income security program to \$750,000. The Wrigley Jr. Company is authorized to appropriate up to a million dollars from its surplus to cover its employment security measures.<sup>17</sup>

The setting up of a fund of fixed amount securing the contract but also establishing the limit of liability on guarantees established through collective bargaining, is not uncommon. So long as the Cleveland plan operated in the garment industry, the liability of each company was set in the different years at from  $7\frac{1}{2}$  per cent of pay rolls (in 1921) to 10 per cent. Obviously, a total limitation of that sort makes it easier for the union to obtain more liberal terms of guarantee than if the firm had to

<sup>17</sup> American Management Association, *Annual Wages and Employment Stabilization Techniques*, Research Report No. 8 (1945), p. 22.

undertake an open-end obligation. In the Nunn-Bush arrangement, the fixed percentage of total sales is of course its own automatic control of the obligation assumed by management.

An agreement may guarantee 52 weeks of employment without necessarily guaranteeing 100 per cent of the difference in wages between actual earnings and full-time pay. Thus, Bellman Brook Bleachery Company guarantees the first 28 weeks of the year unconditionally up to full pay, but it makes up shortages for the last 24 weeks only to the extent of one half of the full-time rate. In other cases, the make-up is only a fraction of the total pay for any week of service, the percentage ranging from 50 to 80 in different agreements. In the case of the Richmond Piece Dye Works, the maximum guarantee takes the form of a fixed amount which is regarded as the minimum weekly wage. Moreover, as has been pointed out previously, unemployment compensation is commonly deducted from the amount for which the firm is liable.

Finally, some of the best-known and most trustworthy guarantees are unilateral in nature, and may be modified or suspended when the management itself determines that the conditions require an adjustment or suspension of the guarantee.

#### THE ABANDONMENT OF PLANS

Even with such safeguards as were set up, there has been a high mortality among annual-wage plans. The National Industrial Conference Board found that of the annual-wage plans that were prominently featured in the lush 1920's, virtually none carried over into the late 1930's. The Columbia Conserve Company, a canning firm which was one of the earliest in the field with a wage plan dating back to 1917, had to make drastic modifica-

tions in 1933, and suspended operations in 1942. The depression of the early thirties contributed to the curtailment or abandonment of several annual-wage plans. The annual-wage agreement in the Cleveland garment industry was perhaps the most prominent of the depression casualties. The other notable industry group plan, that of the Wallpaper Association, likewise had its demise with the depression of the thirties. The Crocker McElwain Company and the Chemical Paper Manufacturing Company, both of Holyoke, Massachusetts, cut their full-time guarantee to 50 per cent in 1932 and suspended their annual-wage plans in 1934.

The General Electric Company plan, started in 1931, underwent reduction of yearly hours from 1,500 to 1,250 by 1933. It was abandoned in 1938 with the advent of the Social Security Act and its unemployment insurance provisions—a factor in the curtailment of several other security programs. The abandonment of the annual-employment plan of the Samarkand Company followed the unionization of the dairy industry, which involved the introduction of new regulations not compatible with the company's employment guarantee.<sup>18</sup>

The passage of the Fair Labor Standards Act in 1938, with its limitations as to hours and its requirement of an agreement with a bona fide union as the basis for avoiding over-time penalty payments, forced a reorganization of the plan of Sears Roebuck and the suspension of others that were similarly affected by the provisions of the act. Some of the state acts passed to implement the Fair Labor Standards Act further restricted the privilege of companies to avoid premiums on over-time in return for annual-employment guarantees.

In the case of the General Motors Corporation, whose

<sup>18</sup> Nielsen, *Guaranteed Employment and Annual Wage Plans*, p. 11.

plan involved wage advances and partial layoff payments to employees with two or more years of service, the reason given for abandonment was the limited use of the privilege by the employees. That is to say, by the end of 1941, unemployment was so high that the company's offer of make-up pay up to 60 per cent of standard weekly earnings had no interest for a labor force that was enjoying continuous employment with long hours and overtime pay.

A list of the better-known company plans which have been abandoned, with their years of operation and number of employees involved, is given below:

| Company  | Industry                     | Date      | Approximate Number of Employees  |
|--|------------------------------|-----------|----------------------------------|
| Chemical Paper Co.                             | Paper                        | 1921-1934 | 184                              |
| Cleveland Garment Workers                      | Women's Clothing             | 1921-1931 | 3,000                            |
| Columbia Conserve Co.                          | Canning                      | 1917-1942 | 64                               |
| Crocker McElwain Co.                           | Paper                        | 1921-1934 | 127                              |
| Cromwell Silver Mfg. Corp.                     | Silver                       | 1939-only | 100                              |
| Davison Chemical Corp.<br>(Curtis Bay Station) | Fertilizers<br>and chemicals | 1939-1940 | 300                              |
| General Electric Co.                           | Lamp<br>Department           | 1931-1938 | 7,000                            |
| General Motors Corp.                           | Automobiles                  | 1939-1941 | 150,000                          |
| International Harvester Co.                    | Agricultural<br>Machinery    | 1940-1943 | 50,000                           |
| Morton Salt Co.                                | Salt                         | 1938-1942 | (Those with 1<br>year's service) |
| Oneida, Ltd.                                   | Tableware                    | 1940-1942 | 2,700                            |
| Patterson Manufacturing Co.                    | Automobile<br>batteries      | 1937-1938 | 50                               |
| Samarkand Co.                                  | Ice Cream                    | 1929-1934 | (All regular<br>employees)       |
| Stewart Paint Mfg. Co.                         | Paint                        | 1940-1942 | ("A few key<br>employees")       |
| Wallpaper Assn. of the U.S.                    | Wallpaper                    | 1909-1930 | 400                              |

#### CONDITIONS FAVORING SUCCESSFUL OPERATIONS

Out of the plans that have been studied, including those in operation and those that have been abandoned, it is possible to point up some of the conditions that make

for the successful operation of a security program. The fact that the line of business is relatively stable is important, but it has not been sufficient to guarantee survival of annual-wage programs. And while a sound firm in a prospective condition is necessary for the experiment, that, too, has not sufficed by itself.

If we take the four plans of substantial coverage that have been in successful operation for at least a decade—Hormel, McCormick, Nunn-Bush, Procter and Gamble—we find in the first place, that each of them was inaugurated by executives ardently devoted to the idea and willing to give the program the large amount of effort that its success entailed. In no case does the successful plan emerge in full bloom at the start. In each of the cases under discussion, the wage security plan has undergone a reasoned process of evolution. It was not only thought out in advance, but it was thoroughly gone over with the employees, and it received a high measure of acceptance from them before it was inaugurated.

Procter and Gamble knew that soap was used the year round, but orders came in seasonal spasms in accordance with traditions established by the wholesalers. The manufacturer therefore had first to educate the retail trade to regularly spaced purchases throughout the year before a schedule of regularized production could be sustained. Hormel had to educate the labor force to the necessity of transfers from one job to another if slack time in one department were to be offset by productive work where it was available. Nunn-Bush had to educate management and workers to the implications of a set-up in which wages were distributed only in proportion to the volume of sales. McCormick had to get the executive staff accustomed to the idea of consulting with employee representatives on management problems and had to get

the employees to think in terms of the labor costs under which the firm could profitably operate and maintain employment at good wages.

The successful operation of an employment guarantee has involved the ability to manipulate production and marketing schedules so as to minimize the fluctuations in volume. The measures taken may include the building up of stocks in slow periods, easing the pressure in the busy season; they may entail the development of new products with which to round out the line, or simplification of the line, to avoid the necessity of taking on part-time help. Some firms have been able to schedule maintenance work so as to keep employees busy on such labor when the direct production schedule slackens.

Along with the designing of the production schedule for stabilization of employment, the maintenance of level pay rolls may require the granting of special inducements like dealer discounts, or the taking on of custom jobs at quantity prices to encourage orders in off-season periods. Occasionally, price inducements to maintain the volume may have to be synchronized with corresponding changes in wage rates. In general, an increased flexibility in the handling of the labor force must be accepted by the workers as consideration for the maintenance of level pay rolls.

The personnel training program must also be adapted to the policy of flexible production adjustments, and to the use of more efficient or cost-saving methods whereby the firm may help maintain its production and sales volume. That may mean re-training of the workers when there is a change in the process, or it may mean increasing the versatility of the workers so that those under the guarantee may fully earn their wages.

The principal measures for stabilizing employment

PRINCIPAL MEASURES FOR STABILIZING EMPLOYMENT IN 203 COMPANIES<sup>a</sup>

| Measures                         | Nondurable Goods Industries |                           | Capital Goods Industries |                          | Nonmanufacturing |                          | Total<br>Companies |
|----------------------------------|-----------------------------|---------------------------|--------------------------|--------------------------|------------------|--------------------------|--------------------|
|                                  | Number of Companies         | Per Cent of 106 Companies | Number of Companies      | Per Cent of 80 Companies | Companies        | Per Cent of 17 Companies |                    |
| <b>PLANNED PRODUCTION</b>        |                             |                           |                          |                          |                  |                          |                    |
| Manufacture for stock.....       | 71                          | 67.0                      | 59                       | 73.8                     | ..               | ..                       | 130                |
| New products or models.....      | 23                          | 21.7                      | 24                       | 30.0                     | 6                | 35.3                     | 47                 |
| Schedule maintenance work.....   | 20                          | 18.9                      | 18                       | 22.5                     | ..               | ..                       | 44                 |
| Simplification of product.....   | 3                           | 2.8                       | 1                        | 1.3                      | ..               | ..                       | 4                  |
| <b>PLANNED DISTRIBUTION</b>      |                             |                           |                          |                          |                  |                          |                    |
| Special dealer discounts.....    | 13                          | 12.3                      | 10                       | 12.5                     | 3                | 17.6                     | 23                 |
| Creating off-season demands..... | 9                           | 8.5                       | 5                        | 6.3                      | ..               | ..                       | 17                 |
| Sales campaigns.....             | 15                          | 14.2                      | 7                        | 8.8                      | ..               | ..                       | 22                 |
| Price changes.....               | 2                           | 1.9                       | 1                        | 1.3                      | ..               | ..                       | 3                  |
| <b>PERSONNEL POLICIES</b>        |                             |                           |                          |                          |                  |                          |                    |
| Training.....                    | 40                          | 37.7                      | 34                       | 42.5                     | 8                | 47.1                     | 82                 |
| Transfer.....                    | 49                          | 46.2                      | 41                       | 51.3                     | 9                | 52.9                     | 99                 |
| Flexible work week.....          | 42                          | 39.6                      | 40                       | 50.0                     | 2                | 11.8                     | 84                 |
| Temporary pensions.....          | 1                           | 0.9                       | 4                        | 5.0                      | ..               | ..                       | 5                  |
| OTHER MEASURES.....              | 6                           | 5.7                       | 2                        | 2.5                      | ..               | ..                       | 8                  |
| Total.....                       | 106                         | 100.0                     | 80                       | 100.0                    | 17               | 100.0                    | 203                |
|                                  |                             |                           |                          |                          |                  |                          | 100.0              |

found in a study by the National Industrial Conference Board of 203 managements which had programs to that end, are tabulated in the table on page 78. (Not all of them, of course, had annual employment or wage commitments.)

The successful plans have almost invariably had to meet the test of decisive action, whether in the terms of eligibility, size of the work week, or the formula for wage payment, when changes in business condition rendered such action necessary.<sup>19</sup> Nor have they been started from the levels of boom years.

The large percentage of abandonments has indicated that the conditions for success are not easy to meet. The instructive case of the Cleveland plan indicated that even moderate provisions, if too rigidly adhered to under unfavorable conditions, could result in the failure of the program. In that case, it was the pressure of competition from areas beyond the control of the Cleveland group that forced the migration of firms to more favorable markets and tended to make the plan untenable. It is significant that since that time the labor organizations in the garment trade have been primarily concerned with raising the efficiency of management and fostering conditions favorable to the solvency of the industry, so that favorable bargaining terms could be sustained.

Executives associated with the successful plans, who have expressed a deep satisfaction with the results of their experiments, have nevertheless cautioned about the necessity of taking the steps toward liberalization

<sup>19</sup> In the example of the Nunn-Bush Co., 9 adjustments on the basis of compensation were made and accepted by the employees between January 1936 and April 1940. The first 5 were upward and of the next 4, 3 were downward. See Charles A. Myers, "Stable Employment and Flexible Wages," *Personnel*, August 1940, p. 55.

of their annual-wage programs only as fast as the ground for them has been solidly laid on the production and marketing side. It is not without significance that the companies which operate successful annual-wage plans do not have an unvarying annual-wage scheme applicable to all their plants. In each case some of the occupations or some of the plants are either excluded from the program for the time being or operate under modified conditions, pending such time as further progress in production and marketing may solve the problem of providing more complete employment and wage guarantees in those areas.

#### SIGNIFICANCE OF THE EXPERIENCE

We have found that between 2 and 3 per cent of the industrial firms, comprising perhaps  $\frac{1}{2}$  of 1 per cent of the employees in the industries involved, have made some type of formal commitment to regularize the annual incomes of the workers. While the examples of this effort are to be found mainly in the consumer goods industries, there are occasional instances covering durable goods lines. The range of the commitments is from unconditional guarantees of year-round, full-time employment and wages, to partial supplementation of reduced earnings in slack periods. Each commitment sets up limitations, safeguards, and escape clauses deemed necessary to ensure the feasibility of the plan. Most of the larger plans were abandoned after a few months or years. Yet there have been a few outstanding examples in which the successes achieved under annual-wage plans would justify an open-minded consideration of similar action by other firms.

The annual-wage commitment has been a challenge to the managements involved to take additional meas-

ures looking to the stabilization of production and markets. Where the commodity is standard, stocks have been built up in slack periods; side lines have been taken on to fill in the gaps; and price inducements have been offered to stimulate orders during the off season. By measures of this type, the guaranteeing firm has been able to keep its staff going as a stable crew for which year-round employment and income might be secured.

These methods have often been effective in ironing out seasonal fluctuations. There has been no appreciable evidence of influence toward cyclical stability resulting from annual-wage programs. At best, the single employer or even the single industry can do little individually to combat cyclical unemployment.

The successful operators of an annual-wage plan have been enthusiastic about its value in building the morale and increasing the efficiency of the working force. It is difficult to obtain any direct evidence on dollar costs and gains of annual-wage plans. No claims on that score are advanced by those who have shared in the experience. In the cases of abandonment—especially during the depression—the cost of the plan was presumed to represent a prohibitive overhead which the firm could not endure. But under the more successful plans some lowered costs in particular areas of operation have been noted. These include the savings from the retention of trained workers as against having to retrain new people where the turnover is greater.<sup>20</sup> Other claims for the successful annual-

<sup>20</sup> Jack Chernick and George C. Hellickson in *Guaranteed Annual Wages* (1945), p. 98, point to the remarkable record of George A. Hormel Co. in holding down labor turnover to a little more than 10 per cent over the two years 1941-43, despite wartime conditions. However, those on military leave were included in a number still on the pay roll. More important to consider, is the special situation of Austin, Minnesota, a relatively closed economic circle, in which the Hormel plant constitutes

wage programs which appear to be substantiated bear on the labor-saving aspects of morale—less clock watching, reduced labor turnover, less tendency to draw out the work, and less employee opposition to technological advances by the firm. In specific instances the guarantee of an annual wage has been given in exchange for moderation of wage rates, and under the Fair Labor Standards Act an annual-wage agreement has meant exemption from penalty of overtime payments.

In the limited area of business where the annual wage has been tried, the measures taken by the individual firm to stabilize its production and sales have made a comparatively small inroad on the industry. A single packing house, for example, can limit its intake of live animals or expand its lines of processed foods, without disturbing the industry as a whole. A single firm may gradually eliminate its recruitment of extra hands by the improved scheduling of its operations among the regular force, without seriously affecting the community pattern of total employment.

The question with which we are confronted in this study is whether business organizations in general could build on the experiences of firms with annual-wage plans and utilize the same means of securing for their workers the opportunity for year-round employment. Could all firms similarly reach out for the extra lines or reduce unstable lines, minimize the recruitment of part-time employees, and successfully stabilize their working

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the main source of employment. That situation may therefore not fairly be compared with one in a metropolis subjected to the pressure of surrounding industries strongly competing for labor.

In contrast to the success of the annual-wage plan at Austin was the experience of the Hormel (Spam) plant in Chicago. There the annual-wage plan inaugurated in 1939 was abandoned after three years because of resistance by the employees.

force? If they tried it, should we find ourselves with a smoother running economy, with a net progress toward a higher general standard of living? If we are to answer this fundamental question of whether it is feasible for industry in general to adopt the guarantee of annual wages, we must know something of the structure of industry in relation to its capacity for stabilized pay rolls. We must see the size of the area of industry that would need to be stabilized. We must sense how and under what conditions various industries get their orders for the products and services which make active pay rolls possible. Are the cyclical fluctuations of producers' goods amenable to disciplines that would suffice to make an annual-wage guarantee feasible?

When that picture has been absorbed, we can then go on to pass judgment on the extent to which the experience of individual firms which have successfully operated annual-wage plans may be carried over into the general economy. The reader is therefore asked to suspend judgment on the carry-over of company experiences, pending the analysis in the succeeding chapters of the scope and character of fluctuating production and demand.

## CHAPTER IV

### THE DATA OF ECONOMIC FLUCTUATION

The uncertainty of employment is the basis for the demand for an annual wage; it is at the same time the limiting factor in the guarantees that may be afforded. What are the measurable facts as to fluctuation in production, employment, and pay rolls to which a regularized wage system would need to be reconciled? What elements of predictability and control exist, upon which the guarantee of annual incomes may be based?

The current civilian labor force of 60 million people who are either employed or seeking work, account for about 55 per cent of the population 14 years of age and over in the United States. Nearly all depend upon current earnings for current livelihood. If a comprehensive scheme of annual wages were conceived, it would have to cover some 58 millions under the income guarantee.<sup>1</sup>

#### OCCUPATIONAL LEVELS

The hierarchy of occupations represents a wide variation in degrees of security. A comprehensive scheme would guarantee the earnings of some 5 million farmers against crop failure, or the effect of an oversupply upon the value of their produce. It would put the farmers in position to guarantee the annual wages of some 2.25 million hired farm hands and the economic security of about 1.2 million family workers who perform their labor on the farm without wages.

It would guarantee annual incomes to about 1.5 million self-employed—those who are in business but hire

<sup>1</sup> See U. S. Bureau of the Census, *Monthly Report on the Labor Force*, Sept. 10, 1946.

no employees—among whom there is a normal, annual turnover of about 20 per cent. It would also have to cover another million and a quarter small proprietors who are responsible for the livelihood of from one to three employees, at least half of whose businesses have averaged less than \$2,500 of net annual income in the years immediately preceding the war. For both those groups, as well as for another half million business owners with larger pay rolls, who are nevertheless in small business, it would have to guarantee income insurance against the whims of customers who have a disconcerting way of moving in and out of neighborhoods and changing their allegiance from one butcher, baker, or barber to another.<sup>2</sup>

It would safeguard a host of doctors, dentists, architects, and others against the varying needs for their services by the individuals and families upon whose favor their active clientele depends.

It would include some 6 million skilled workers in various crafts, from construction workers to whom part-time work seems normal, to basic maintenance men in public utilities whose job continuity is taken for granted. It would include 10 million semiskilled workers and 4 million laborers whose jobs likewise run the gamut from casual employment to year-round security.

In the labor force are some 6 million service workers whose employment consists of running elevators, working in beauty parlors, laundering, or performing services at or near the professional level. There are some 9 million clerical and sales people who are ordinarily paid on an annual basis. In this group are a few millions whose work with the government or large companies is

<sup>2</sup> The relation of size of business to employment, by industry divisions, is given in App., Table 3.

assumed to be on a continuing basis, and whose problem may even be one of avoiding a mental rut rather than fearing for their jobs. On the other hand, a great many in the clerical and sales category are the only employees in the offices or shops to which they are assigned.

Any effort to give definite occupational classification to the members of the labor force is confronted with the great variety of seasonal part-time and casual workers whose availability is essential to making the wheels of industry go round. Among them—and their number reaches into the millions—are the summer hands on farms, workers on ships and docks, helpers in tourist activities, resorts, and sports; workers in cannning factories, sugar refineries, and lumber camps. This roving pattern of employment may be assumed through personal preference, and may mean high average annual income, or it may represent a status on the fringe of the gainfully employed force.

The mobility given to the labor force by such essential workers, is supplemented by what may be regarded as a necessary float—possibly 2 millions—among whom the labor turnover represents the unemployment and the shifts in employment that go with a moving economy.

Finally, we have young people and others—close to 600,000 annually—who are seeking their first jobs and those whose occupations could not be definitely stated by themselves.

Roughly, one fourth of the labor force consists of women. Some will stick to their jobs as lifetime careers; others will be in and out of the labor force as pin money requirements, family vicissitudes, or the desire to be occupied may influence them. The majority will be in the labor force only until they are married.

The distribution within general occupational groups, as given in the United States census of 1940, is shown in the table below.

THE EXPERIENCED LABOR FORCE, MAJOR OCCUPATION GROUPS, UNITED STATES CENSUS, 1940\*

| Occupation Group                               | Number      | Per Cent |
|--|-------------|----------|
| EXPERIENCED LABOR FORCE.....                   | 52,022,158  | 100.0    |
| Professional and semiprofessional workers..... | 3,549,354   | 6.8      |
| Proprietors, managers, officials.....          | 9,026,984   | 17.4     |
| Farmers and farm managers.....                 | (5,176,798) | (10.0)   |
| Proprietors, managers, officials, nonfarm..... | (3,850,186) | (7.4)    |
| Clerical, sales, and kindred workers.....      | 8,307,490   | 16.0     |
| Craftsmen, foremen, and kindred workers.....   | 5,877,094   | 11.3     |
| Operatives and kindred workers.....            | 9,415,901   | 18.1     |
| Service workers.....                           | 6,258,070   | 12.0     |
| Domestic service.....                          | (2,327,159) | (4.5)    |
| Protective services.....                       | (740,876)   | (1.4)    |
| All other services.....                        | (3,190,035) | (6.1)    |
| Laborers.....                                  | 8,605,256   | 16.5     |
| Farm wage workers.....                         | (2,227,783) | (4.3)    |
| Farm family workers.....                       | (1,183,523) | (2.3)    |
| Laborers, except farm and mine.....            | (3,910,263) | (7.5)    |
| Labor on public emergency work.....            | (1,283,687) | (2.4)    |
| Occupation not reported.....                   | 982,009     | 1.9      |

\* U. S. Bureau of the Census, *Sixteenth Census of the United States, The Labor Force*, Vol. 3, Pt. 1, p. 10.

### MAJOR INDUSTRY GROUPS

When we move from the ideal concept of an annual wage that would include every occupational stratum, to the more realistic question of its practical application in a given sector of the economy, the industry or line of business becomes a more determining factor than the type of occupation. That distribution as of the 1940 census is shown in the table on page 88.

For our purpose, the significance of the industrial break-down does not lie solely, or even primarily, in the

MAJOR INDUSTRY GROUPS OF EMPLOYED PERSONS AND OF EXPERIENCED WORKERS SEEKING WORK, BY SEX,  
FOR THE UNITED STATES, 1940<sup>a</sup>

| Industry Group   | Employed (Except emergency work) |        | Seeking Work, Experienced |        |
|--|----------------------------------|--------|---------------------------|--------|
|  | Male                             | Female | Male                      | Female |
| Total.....   | 34,027,905                       | 100.0  | 11,138,178                | 100.0  |
| Agriculture, forestry, fishery .....                               | 7,988,343                        | 23.5   | 487,089                   | 4.4    |
| Mining.....  | 902,061                          | 2.7    | 10,939                    | 0.1    |
| Construction.....  | 2,022,032                        | 5.9    | 34,242                    | 0.3    |
| Manufacturing.....   | 8,250,590                        | 24.2   | 2,322,252                 | 20.8   |
| Transportation, communications,<br>and other public utilities..... | 2,768,267                        | 8.1    | 345,086                   | 3.1    |
| Wholesale and retail trade.....                                    | 5,509,228                        | 16.2   | 2,029,540                 | 18.2   |
| Finance, insurance, real estate.....                               | 1,013,297                        | 3.0    | 454,300                   | 4.1    |
| Business and repair services.....                                  | 787,377                          | 2.3    | 76,877                    | 0.7    |
| Personal services.....   | 1,133,555                        | 3.3    | 2,875,762                 | 25.8   |
| Amusement, recreation, and related<br>services.....                | 316,063                          | 0.9    | 79,279                    | 0.7    |
| Professional and related services.....                             | 1,472,453                        | 4.3    | 1,845,128                 | 16.6   |
| Government.....  | 1,414,069                        | 4.2    | 339,418                   | 3.0    |
| Industry not reported.....   | 450,570                          | 1.3    | 238,266                   | 2.1    |

numbers involved. It lies in the fact that a dynamic economy may produce different histories—that is different trends—as between one industry and another, which in turn would give varying degrees of emphasis to the need or desirability of stabilizing employment and wages in the given sector.

The American tradition of economic progress has welcomed new inventions in products and corresponding changes in the mode of living. What is more, it has sought to make the benefits of these changes speedily available to the great mass of the population. Sometimes the technological and social changes may take place in an industry without disturbing the essential character of the industry or the labor force attached to it. At other times, the change is far-reaching enough to mean the rise of what is virtually a new industry at the expense of an old one. These phenomena have their counterparts in the shifting of employment opportunities.

We have entered the current postwar era with our gainfully employed civilians roughly distributed in the following manner (as of March 1946):<sup>3</sup>

| Industry group   | Number<br>(In millions) | Per Cent   |
|--|-------------------------|------------|
| <b>TOTAL.....</b>  | <b>56</b>               | <b>100</b> |
| Agriculture.....   | 7.8                     | 14         |
| Manufacturing.....   | 14.6                    | 26         |
| Mining.....  | 1.1                     | 2          |
| Construction.....  | 1.7                     | 3          |
| Transportation, communication, and public utilities.....     | 3.9                     | 7          |
| Trade.....   | 8.4                     | 15         |
| Finance, services, and miscellaneous.....                    | 5.6                     | 10         |
| Domestic service.....  | 1.7                     | 3          |
| Nonagricultural self employed and unpaid family workers..... | 6.2                     | 11         |
| Government.....  | 5.0                     | 9          |

<sup>3</sup> Based on data from U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, July 1946, p. 13.

This pattern already reflects some changes from V-J Day, in the tapering off of manufacturing employment and the rise in construction and trade. But if we compared it with the distribution by major industries in the last census year of 1940 (see table on page 88), we should see that the immediate postwar distribution is still out of line with the peacetime norm as we have known it in a number of important industrial areas. (For a general picture of the year-to-year changes in employment since 1900, serving as reference for the ensuing discussion of industry trends, see App., Table 4.)

In *agriculture* the gainfully employed labor force (excluding unpaid family workers) currently engaged is slightly under 8 millions.<sup>4</sup> The present figure of around 8 millions reflects the broadest fundamental long-term change in the character of our working population—the continuing fall in the ratio of our rural to urban population. We may never again equal the total of 11.5 million persons working on farms that we had just before World War I.

Yet the quantity of produce has increased and has given rise to more jobs in related fields of transportation, food processing, and trade than were shown, let us say, in the census year 1910. The unprecedented volume of production in recent years was achieved with only three fourths as many farmers as were available in the first decade of the twentieth century. But even in peacetime the ex-farmers and sons of farmers were taking up non-agricultural employment, in garages and filling stations, in trucking, in the business of recreation, in the domestic and personal services, or perhaps in trade. The future development of agriculture may, by the same token, rep-

<sup>4</sup> It would normally go about 3 millions higher for the summer months.

resent a decrease in the number of farms—especially the small, marginal farms—along with an increase in their size and mechanical equipment, and an increase in the total output of farm produce for industrial uses as well as for food. It is even believed that such a decline in the numbers attached to farms must accompany a rise in the economic level of rural life.<sup>5</sup> Under these circumstances the question of an annual wage is likely to emerge in agriculture only after a large segment thereof has taken on the character of an established business under conditions that call for a basic crew of employees who can make a career of it. For the present, farmers are more likely to be interested in the question of how an annual wage in industry would affect the prices that farmers pay for the goods they have to buy.

*Government*, including state and local subdivisions, has become one of the major areas of employment, accounting currently for about 5 million employees. For most of them, the problem of the annual wage does not arise. Since government budgets are generally on an annual or biennial basis, the great majority of government workers are on salary. Those who are not, may have their employment designed on an emergency basis and not intended to be stabilized. In any event, our political organization, and considerations of public fiscal policy, would preclude the freezing of nonsecured civilian servants under an annual wage.

*The private service industries*, including domestic service, engage close to 8 millions of our working population. They form an area which for many years has gained not only in absolute numbers, but in its percentage of total employment. In 1900 the service indus-

<sup>5</sup> Theodore W. Schultz, *Agriculture in an Unstable Economy* (1946), p. 193.

tries accounted for considerably less than half of the number engaged in agriculture. Today they have at least the equal of agriculture in numbers engaged. It is an area that bids fair to continue the rise in numbers. It is typically the area of small business and of short-lived business, where entry and exit are relatively easy and adaptation to changes in population and consumer tastes is readily made. The majority of the workers in this area are female (see table on page 88), and nearly all are on a salary basis, with the problem of temporary layoffs not appreciably in the picture.

In the professional services we have either the self-employed, or those under salary contract as employees. With the latter, the question is one of retaining or changing connections rather than one of temporary layoffs by the firm to which one is attached.

*The trade group*, like that of the services, has continually increased as the mass output of big industry has required a growing system of channels for distribution. Since 1900 the number engaged in distributive lines has increased from a little over 3 millions to roughly 8 millions. The trade lines are, like the services, still largely the domain of small business. There has been, however, the familiar development of the large department store, mail order house, and the chain retailer. As has already been noted in the preceding chapter, some of these larger units have stabilized substantial portions of their activities to the point where arrangements approaching the guarantee of annual employment and wages have been effected. The distributive field, however, is not likely to be in the foreground of the annual-wage issue. So long as small business predominates, business survivorship is precarious, and many of the employees therein deliberately seek pin money, seasonal and otherwise part-

time employment, with a large, female force that looks to marriage as a permanent career.

In our listing of the industrial areas, we have now reached that sector of the economy which is conventionally understood as industry proper. It includes construction, transportation and communication, mining, and manufacturing.

#### SIGNIFICANCE OF THE INDUSTRIAL SEGMENT

It is in this industrial group that the issue of the annual wage comes to the fore, because it is within this area that fluctuations most disastrous to stable employment occur; because it is an area in which big business accounts for the major portion of the employment; because in this area the great majority of the employees are wage workers on an hourly basis, with large numbers subject to layoffs on short notice; and because it is an area in which labor is represented through large-scale, articulate organization.

When union membership during the war was at an all-time high, the major labor federations could claim a combined membership of around 12 millions, of which nearly three fourths would be in the industrial segment. In this general area of industry, employment during the past two peacetime decades, has fluctuated between 7.5 and 13 millions. The rate of unemployment fluctuated between 8 per cent of those normally seeking their livelihood in industry in 1919 and 48 per cent in 1932. During the period, the aggregate earnings varied from 18.5 billions in 1920 to 7.5 billions in the depression of the thirties. The average annual earnings of those who were employed dropped from \$1,483 in 1920 to \$915 in 1933. (See table on page 94.)

The war increased employment in this total area to an

ESTIMATED AVERAGE ANNUAL EARNINGS OF INDUSTRIAL  
WAGE EARNERS, 1919-38<sup>a</sup>

| Year    | Aggregate Earnings (In millions of dollars) | Number of Wage Earners (In thousands) |          | Per Cent Not in Attached Employment <sup>b</sup> | Average Annual Earnings (In dollars) |                               |
|---------|---|---------------------------------------|----------|--|--------------------------------------|-------------------------------|
|         |   | Employed                              | Attached |  | Employed Workers                     | Attached Workers <sup>c</sup> |
| 1919... | 15,369                                      | 12,581                                | 13,720   | 8  | 1,222                                | 1,120                         |
| 1920... | 18,593                                      | 12,538                                | 13,960   | 10   | 1,483                                | 1,332                         |
| 1921... | 13,081                                      | 10,053                                | 13,800   | 27   | 1,301                                | 948                           |
| 1922... | 13,661                                      | 10,924                                | 13,960   | 22   | 1,251                                | 979                           |
| 1923... | 17,188                                      | 12,509                                | 14,090   | 11   | 1,374                                | 1,220                         |
| 1924... | 16,492                                      | 11,883                                | 14,190   | 16   | 1,388                                | 1,162                         |
| 1925... | 17,096                                      | 12,230                                | 14,280   | 14   | 1,398                                | 1,197                         |
| 1926... | 18,010                                      | 12,765                                | 14,360   | 11   | 1,411                                | 1,254                         |
| 1927... | 17,793                                      | 12,558                                | 14,420   | 13   | 1,417                                | 1,234                         |
| 1928... | 17,596                                      | 12,391                                | 14,450   | 14   | 1,420                                | 1,218                         |
| 1929... | 18,267                                      | 12,832                                | 14,480   | 11   | 1,424                                | 1,262                         |
| 1930... | 15,187                                      | 11,359                                | 14,520   | 22   | 1,337                                | 1,046                         |
| 1931... | 11,309                                      | 9,430                                 | 15,600   | 35   | 1,199                                | 775                           |
| 1932... | 7,536                                       | 7,675                                 | 14,700   | 48   | 982                                  | 513                           |
| 1933... | 7,376                                       | 8,061                                 | 14,840   | 46   | 915                                  | 497                           |
| 1934... | 9,242                                       | 9,335                                 | 15,080   | 38   | 990                                  | 613                           |
| 1935... | 10,521                                      | 9,942                                 | 15,430   | 36   | 1,058                                | 682                           |
| 1936... | 12,644                                      | 11,064                                | 15,800   | 30   | 1,143                                | 800                           |
| 1937... | 14,794                                      | 11,921                                | 16,100   | 26   | 1,241                                | 919                           |
| 1938... | 12,062                                      | 10,256                                | 16,300   | 37   | 1,176                                | 740                           |

<sup>a</sup> From Spurgeon Bell, *Productivity, Wages, and National Income* (1940), p. 21. Comprises employment in manufacturing, railroads, mining, and construction. These industries represent about 90 per cent of total industrial employment.

<sup>b</sup> Computed from two preceding columns.

<sup>c</sup> Aggregate earnings divided by the number of wage earners attached to industry.

unprecedented figure of 22 millions. That rise in the employment figure for the industrial groups was accompanied by very high turnover. Although layoffs were few and of short duration, the number who quit their jobs for more lucrative ones constituted about 60 per cent of the total force of wage earners, while the annual rate of accessions—hiring and rehiring—was around 90 per

cent in 1942 and 1943. Whether in war or in peace, it is characteristic of years of high production and employment that they are accompanied by a high percentage of labor turnover. (See chart on page 96.)

To get back to a peacetime norm, this section of our labor force has undergone some major shifts in reverse. The first twelve months after Germany laid down its arms witnessed a drop of 4 millions in manufactures. Some of those laid off retired from the labor force; others were reabsorbed into the trades, services, and other under-manned lines. The return to a tenable peacetime basis must inevitably call for additional realignment of industrial employees in accordance with the development of new products, the shift of consumer demands, and parallel changes in technology. Thus, the plight of those who are temporarily laid off is matched by the impossibility of guaranteeing present employment to all of those now on the pay rolls.

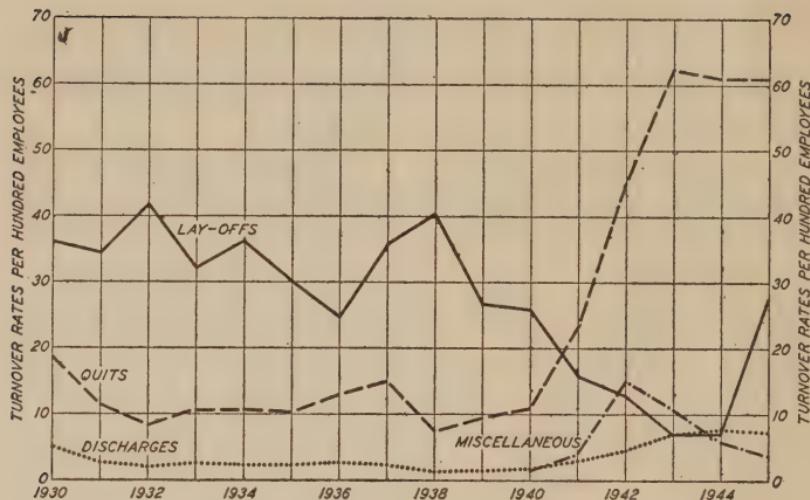
Within the area that we are including under the category "industrial," we find many contrasts both as to long-run and short-run trends.

The *public utilities* field, embracing communications, power and light, had a steady rise in employment between 1900 and 1930, and has undergone little change from the average of a million employees since that time. In transportation, the upward trend from 1900 to 1920 gave way to a period of relatively stationary employment in the twenties, with recruitments from the trucking field offsetting the decline in rail transport. It was followed by a marked general decline in transportation employment during the 1930's.

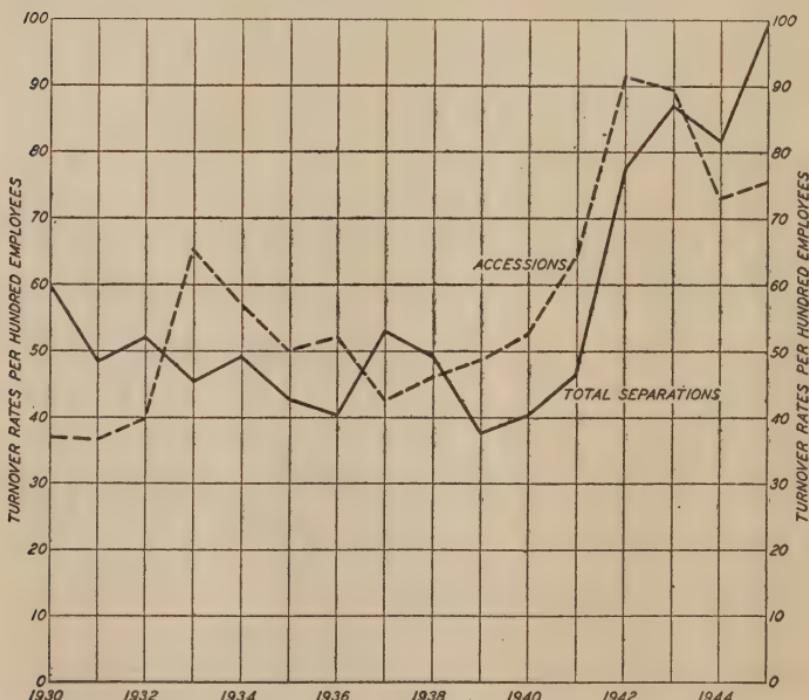
*Construction* has been the most volatile of the important sectors of the industrial group, both as to long-

# LABOR TURNOVER, 1930-45<sup>a</sup>

## I. VOLUNTARY AND INVOLUNTARY SEPARATIONS



## II. TOTAL SEPARATIONS AND ACCESSIONS



<sup>a</sup> For data see App., Table 7, p. 258.

run and short-run trends. As far back as 1902, within a total national employment of around 30 millions, construction accounted for 2.6 million workers. Thirty years later, when population increases had raised the labor force to more than 40 millions, only 1.1 million persons had employment in construction—less than half the number at the turn of the century. There was a period in the middle 1920's, on the other hand, when construction employed more than 3 million persons. That figure was not matched in recent years.

The *mining industry* has followed on a smaller scale the long-term trend of agriculture. Before and during World War I, when it employed approximately a million and a quarter persons, mining accounted for more than 3 per cent of the nation's total employment. Since that time its employment has not only gone down in total numbers; it has now reached the point where, with 600,000 employed, it accounts for not more than 1 per cent of the civilian labor force. The wide fluctuations in pay rolls have been a feature of the mining industry. Between 1929 and 1932, the wage pay roll dropped from 1.1 billion dollars to 440 millions and was at the level of around 800 millions in 1939.

#### INDUSTRIAL PRODUCTION

In studying production and employment experience, with an eye to its implications for annual-wage policy, we are interested first, in the time element—the period over which some predictability of a reasonable commitment is feasible. We are also interested in the spread between high points and low points, as well as the regularity of their recurrence if we are to get some idea of what a reasonable norm might be for annual-wage determination. On this score, we shall find that the be-

havior by lines of industry, and even by different plants within an industry, varies so widely as to require a consideration of individual situations in addition to the over-all picture.

We shall first consider the production pattern, and then see how closely the behavior of employment and pay rolls followed the curve of production itself.

INDUSTRIAL PRODUCTION MANUFACTURES<sup>a</sup>  
(Physical volume)  
1935-39 = 100

| Year      | Total | Year      | Total |
|-----------|-------|-----------|-------|
| 1919..... | 72    | 1935..... | 87    |
| 1920..... | 75    | 1936..... | 103   |
| 1921..... | 58    | 1937..... | 113   |
| 1922..... | 73    | 1938..... | 89    |
| 1923..... | 88    | 1939..... | 109   |
| 1924..... | 82    | 1940..... | 125   |
| 1925..... | 90    | 1941..... | 162   |
| 1926..... | 96    | 1942..... | 199   |
| 1927..... | 95    | 1943..... | 239   |
| 1928..... | 99    | 1944..... | 235   |
| 1929..... | 110   | 1945..... | 203   |
| 1930..... | 91    |           |       |
| 1931..... | 75    |           |       |
| 1932..... | 58    |           |       |
| 1933..... | 69    |           |       |
| 1934..... | 75    |           |       |

<sup>a</sup> U. S. Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, August 1946, p. 909.

Taking industrial production as a whole, we are familiar with the fact that it followed a strong upward trend during the decade after World War I. The general index of industrial production climbed from 72 in 1919 to 110 in 1929 (1935-39 = 100). After the relatively short depression of 1921, production rose sharply. The upward movement was only negligibly interrupted

by a brief recess in 1924 and a small decline in 1927. On an experience confined to the middle twenties, it might have seemed relatively safe to make an annual-wage commitment close to the positions then current, in view of the general upward trend. (See table on page 98.)

When the depression came, however, the industrial production index fell, not to some point near the average of the previous period, but to a low (in 1932) of 58. The recovery of the thirties was hesitant; industrial production did not attain the levels of 1929 until 1937. But that new peak lasted only a few months, and in the sharp recession in 1938 production fell to 89, which was about the level of 15 years earlier. It took the defense preparations and later the active war boom to move the index definitely above average of the previous two decades.

#### MANUFACTURING—DURABLES AND NONDURABLES

In the current stage of the annual-wage issue, the problem focuses ultimately on the area of manufactures. This is not alone because manufactures cover two thirds of the industrial force and a much larger fraction of the wage earners paid by the hour. The value added by manufactures has accounted in peacetime years for about one third of the total national income. Moreover, the key manufacturing industries, to a greater extent than any other area of production, have created the climate of prosperity and depression for the communities of the nation. It has already been indicated that as a practical matter the brunt of the issue of the annual wage will have to be met in negotiations between manufacturing employers and the corresponding labor representatives.

The availability of more systematic statistics of production and employment in manufacturing than in most

of the other fields, is a further reason for selecting that area for a more extended analysis of the background of employment fluctuation.

The distinction between the behavior of the production curve in durable goods and that in nondurable goods, taking them as general categories, is sufficiently marked to justify their analysis as separate categories in this context.

*Production of durable goods* fluctuated in the direction of industrial production as a whole, but the typically greater intensity of the variations in durable—hence usually deferable—goods is significant in the analysis. Between 1923 and 1929, the rise in the index of durable manufactures from 103 to 132 was about 20 per cent greater than that of industrial production in general. Conversely, the fall after 1929 was more precipitous. The production of durable goods in 1932 amounted to barely one third of what was produced in 1929. Whereas the combined index of industrial production had by 1937 caught up with the 1929 total, the production of durable manufactures did not come abreast of its 1929 peak until 1940 (index = 139). But from there on it almost trebled within three years under the impetus of wartime demand. (See table on page 101.)

*Nondurable manufactures* showed an upward movement practically without interruption throughout the 1920's, from 57 in 1921 to 93 in 1929 (1935-39 = 100). In contrast with the durables, the fall from 1929 to the low of the depression of 1932 did not exceed 25 per cent (nondurables index, 1932 = 70; in 1933 = 79). The increase of production of nondurable manufactures brought the index in 1936 above the level of 1929. The 1938 setback was only a short recess for non-

**PRODUCTION, EMPLOYMENT, AND PAYROLLS**  
 (1935-39=100)

| Year | Manufactures            |                         |                        | Durable Manufactures    |                         |                        | Nondurable Manufactures |                         |                        |
|------|-------------------------|-------------------------|------------------------|-------------------------|-------------------------|------------------------|-------------------------|-------------------------|------------------------|
|      | Production <sup>a</sup> | Employment <sup>b</sup> | Pay-rolls <sup>b</sup> | Production <sup>a</sup> | Employment <sup>b</sup> | Pay-rolls <sup>b</sup> | Production <sup>a</sup> | Employment <sup>b</sup> | Pay-rolls <sup>b</sup> |
| 1919 | 72                      | 109.0                   | 113.2                  | 84                      |                         |                        | 62                      |                         |                        |
| 1920 | 74                      | 109.4                   | 135.3                  | 93                      |                         |                        | 60                      |                         |                        |
| 1921 | 56                      | 83.8                    | 87.3                   | 53                      |                         |                        | 57                      |                         |                        |
| 1922 | 74                      | 92.6                    | 93.8                   | 81                      |                         |                        | 67                      |                         |                        |
| 1923 | 86                      | 106.0                   | 118.8                  | 103                     | 117.2                   | 128.6                  | 72                      | 97.1                    | 109.4                  |
| 1924 | 81                      | 98.5                    | 110.9                  | 95                      | 108.6                   | 119.5                  | 69                      | 90.4                    | 102.6                  |
| 1925 | 90                      | 101.9                   | 116.7                  | 107                     | 112.0                   | 125.7                  | 76                      | 93.8                    | 108.2                  |
| 1926 | 95                      | 103.9                   | 120.3                  | 114                     | 115.4                   | 130.6                  | 79                      | 94.6                    | 110.6                  |
| 1927 | 94                      | 101.6                   | 118.2                  | 107                     | 108.7                   | 123.2                  | 83                      | 95.9                    | 113.4                  |
| 1928 | 99                      | 101.8                   | 119.5                  | 117                     | 110.0                   | 127.5                  | 85                      | 95.3                    | 112.0                  |
| 1929 | 110                     | 108.3                   | 127.5                  | 132                     | 119.6                   | 138.5                  | 93                      | 99.3                    | 117.0                  |
| 1930 | 90                      | 94.4                    | 103.2                  | 98                      | 98.6                    | 104.4                  | 84                      | 90.8                    | 102.0                  |
| 1931 | 74                      | 79.8                    | 78.3                   | 67                      | 76.2                    | 69.3                   | 79                      | 82.4                    | 86.9                   |
| 1932 | 57                      | 67.7                    | 53.9                   | 41                      | 59.5                    | 41.6                   | 70                      | 74.3                    | 65.7                   |
| 1933 | 68                      | 75.0                    | 57.9                   | 54                      | 64.8                    | 45.9                   | 79                      | 83.0                    | 69.4                   |
| 1934 | 74                      | 87.5                    | 74.5                   | 65                      | 81.5                    | 65.0                   | 81                      | 92.3                    | 83.7                   |
| 1935 | 87                      | 93.2                    | 85.6                   | 83                      | 89.9                    | 79.9                   | 90                      | 95.8                    | 91.0                   |
| 1936 | 104                     | 101.1                   | 99.1                   | 108                     | 102.1                   | 100.5                  | 100                     | 100.1                   | 97.7                   |
| 1937 | 113                     | 110.9                   | 118.4                  | 122                     | 117.5                   | 127.6                  | 106                     | 105.7                   | 109.5                  |
| 1938 | 87                      | 92.8                    | 90.6                   | 78                      | 88.9                    | 84.6                   | 95                      | 96.0                    | 96.4                   |
| 1939 | 108                     | 102.0                   | 106.5                  | 109                     | 101.6                   | 107.4                  | 109                     | 102.4                   | 105.5                  |
| 1940 | 124                     | 109.8                   | 121.7                  | 139                     | 117.5                   | 134.3                  | 115                     | 103.7                   | 109.6                  |
| 1941 | 168                     | 130.4                   | 171.8                  | 201                     | 150.9                   | 209.1                  | 142                     | 114.0                   | 136.2                  |

<sup>a</sup> U. S. Board of Governors of the Federal Reserve System. Figures published monthly in *Federal Reserve Bulletin*.

<sup>b</sup> U. S. Bureau of Labor Statistics, *Handbook of Labor Statistics*, Vol. I (1941), pp. 169-71. Indexes have been converted to 1935-39 base.

durable goods; thereafter the index rose, by 1940, to a level 60 per cent above the 1923 starting point.<sup>6</sup>

<sup>6</sup> Straight line trends bring out more clearly the difference between the production of durable and nondurable manufactures.

Trends computed for the years from 1923 to 1940 have the following equation:

Durable manufactures:  $y = 96.6 - .20x$  with origin at Jan. 1, 1932

Nondurable manufactures:  $y = 86.0 + 1.97x$  with origin at Jan.

I, 1932

These equations indicate that, whereas the average level is higher for the production of durable than for nondurable manufactures (96.6 basis 1935-39 = 100), their production decreased slightly during the 1923-40 period (1/5 of 1 per cent per year). Nondurable manufactures have a lower average level (86.0 on basis 1935-39 = 100), but they increased on the average at a rate of almost 2 per cent per year.

It should be obvious that we can get either an upward or downward trend for the period following World War I by a slight change in terminal years. Strictly speaking, no meaningful trend can be computed for the interval between the two wars. The period of the twenties and early thirties could be regarded as a *laissez faire* period of prosperity and depression. Thereafter, the character of the upswing of the thirties is intimately linked to the New Deal program, whereas the prosperity of the defense and war period is clearly the reflection of vast government expenditures for armament purposes.

#### CYCLICAL EMPLOYMENT AND PAY ROLLS

Let us now pause to see how well the fluctuations in production were reflected in the rise and fall of employment and pay rolls. The indexes of employment and pay rolls in manufactures to which this discussion will have reference are given in the table on page 101.<sup>7</sup>

On the upgrade of the 1920's, while production increased by more than 30 per cent, the number of wage earners directly employed in manufactures remained almost stationary, the computed increase being a little over 1 per cent. During the same period the corresponding index for pay rolls went up less than 10 per cent.

On the downgrade from 1929 to 1932, the drop of 45 per cent in production was more than matched by the cut in pay rolls to less than half. (The pay-roll index dropped from 127 to 54.) The volume of employment meanwhile fell nearly 40 per cent—107 to 67. During the ensuing rise of business activity from the low of the

<sup>7</sup> The small differences between the figures employed in this discussion and the standard Bureau of Labor Statistics series of manufacturing, employment, and pay roll will be due to the fact that the figures cited here are computed on the uniform basis of 1935-39 = 100, whereas the BLS index has 1939 = 100.

thirties, the employment figure climbed back with a rise of about 40 per cent (to 212 by 1940). Pay rolls during the same years went up more than 50 per cent (54 to 121). But in the meantime, production more than doubled (58 in 1932 to 125 in 1940).<sup>8</sup>

Thus, we see that during the upswing of the twenties, the sharpest increase among the three series was in production. Pay rolls followed production, but not by the same percentage, while employment increased hardly at all. During the depression of the early thirties, pay rolls and production went down together, with pay rolls dipping even more sharply than production; the number of wage earners employed was not reduced as sharply as production itself; quite evidently the average number of hours per employee, as well as the number of employees, went down. In the upswing of the middle 1930's, employment again lagged behind production in manufactures; but pay rolls, reflecting higher wage rates as well as higher employment, moved sharply upward, though not at the rate of production itself.

<sup>8</sup> The index of pay rolls is in current dollars. The value of the pay rolls at the high and low points may be better judged in relation to the index of the cost of all goods purchased by wage earners and lower salaried workers in large cities, which is compiled by the Bureau of Labor Statistics. Between 1921 and 1929 (mid-year) the index of the cost of wage earner purchases dropped slightly (126.6 in May 1921 to 122.1 in June 1929). From 1929 to 1933 the wage earner cost of living dropped 30 points. During the upswing from 1933 to 1940, the rise in living cost was about 8 per cent, with the 1940 index figure running 20 per cent lower than that of 1921. On that basis the index of "real wage" pay rolls would be relatively more favorable to the period of the thirties in comparison with the twenties. The deflated index of pay rolls would be as follows:

| 1923 | 1929  | 1932 | 1940  |
|------|-------|------|-------|
| 97.7 | 104.4 | 55.3 | 121.1 |

Between 1940 and 1946 the cost-of-living index rose by 31 per cent, so that the real pay rolls in 1946 were roughly 90 per cent above those of 1940.

A tabular summary of the magnitude of the upward and downward swings for manufacturing as a whole would run as follows:

| Year          | Production | <i>Pay Rolls<br/>(Percentage)</i> | Employment |
|---------------|------------|-----------------------------------|------------|
| 1923-29 ..... | + 30       | + 10                              | + 2        |
| 1929-32 ..... | - 45       | - 60                              | - 35       |
| 1932-40 ..... | +115       | +125                              | +60        |
| 1923-40 ..... | + 40       | + 2                               | + 3        |

When the trend of employment and pay rolls for total manufactures is compared with that of individual lines of manufacture, a wide variation is found in the degree to which they follow the general pattern. The parallel movements for durable and nondurable goods are shown in the table below.

#### CHANGES IN PRODUCTION, PAY ROLLS, AND EMPLOYMENT

| Year         | Durables                 |                        |                          | Nondurables              |                        |                          |
|--------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|--------------------------|
|              | Production<br>(Per cent) | Pay Roll<br>(Per cent) | Employment<br>(Per cent) | Production<br>(Per cent) | Pay Roll<br>(Per cent) | Employment<br>(Per cent) |
| 1923-29..... | +30                      | +10                    | + 1                      | +30                      | +10                    | + 2                      |
| 1929-32..... | -70                      | -70                    | -50                      | -25                      | -45                    | -25                      |
| 1932-40..... | +240                     | +220                   | +100                     | +65                      | +65                    | +45                      |
| 1923-40..... | +35                      | +3                     | +2                       | +60                      | -                      | +7                       |

It will be seen that durables and nondurables alike moved upward very slightly in employment during the 30 per cent rise of production between 1923 and 1929. The increase in numbers employed in both cases was negligible during this period, although somewhat greater for nondurables than for durables. But during the recession of 1929 to 1932, the drop in employment

suffered by the nondurable goods lines was only half as great as in durables. In respect to pay rolls, the drop of 70 per cent for durable goods was again greater than for the nondurables. (But it is notable that the drop in the pay rolls for nondurable goods was greater than the fall in the production of nondurables, while in the durable goods industries production and pay rolls declined at the same rate.)

During the recovery from 1932 to 1940, the pay rolls in durables more than trebled, while employment doubled. In nondurable goods, however, the rise in those eight years produced less than a 50 per cent increase in employment and a 65 per cent increase in pay rolls. When the entire period from 1923 to 1940 is taken, we find that pay rolls had about succeeded in making up for the depression losses. So far as the nondurable goods were concerned, there was likewise a catching up by 1940 with the pay-roll figures of the twenties. The number employed in nondurable goods lines in 1940 was somewhat higher than in 1923, despite the fact that pay rolls had not increased—apparently due to the reduction in hours per week and some shifting to lower skills on mechanical operations.

In this general discussion of industrial production of durables and nondurables, the reference has been mainly to the significant fluctuation between years rather than to seasonal variation. The fact is that seasonal trend has little meaning for the total of production. Among the different industries are complementary processes or demands. Their seasonal trends more or less offset each other. The result is that for industrial production the peak and low months vary from year to year according to whether industry generally is in a rising level or

declining phase. The high and low months of production activity, as may be seen in the table below, will bear out this point. The seasonal factors become significant for specific industries, especially those that are dependent

HIGH AND LOW MONTHS IN MANUFACTURE<sup>a</sup>  
(1935-39 = 100)

| Year      | High | Month | Low | Month |
|-----------|------|-------|-----|-------|
| 1923..... | 91   | May   | 79  | Dec.  |
| 1924..... | 87   | Mar.  | 71  | July  |
| 1925..... | 95   | Oct.  | 86  | Jan.  |
| 1926..... | 100  | Sept. | 89  | Dec.  |
| 1927..... | 99   | Mar.  | 86  | Dec.  |
| 1928..... | 106  | Oct.  | 96  | Feb.  |
| 1929..... | 117  | May   | 92  | Dec.  |
| 1930..... | 102  | Apr.  | 73  | Dec.  |
| 1931..... | 83   | Apr.  | 61  | Dec.  |
| 1932..... | 62   | Feb.  | 50  | July  |
| 1933..... | 84   | July  | 51  | Mar.  |
| 1934..... | 82   | May   | 67  | Jan.  |
| 1935..... | 95   | Oct.  | 80  | Jan.  |
| 1936..... | 115  | Nov.  | 90  | Jan.  |
| 1937..... | 124  | Apr.  | 82  | Dec.  |
| 1938..... | 101  | Nov.  | 78  | Jan.  |
| 1939..... | 127  | Nov.  | 97  | Jan.  |
| 1940..... | 143  | Dec.  | 113 | Apr.  |
| 1941..... | 183  | Oct.  | 144 | Jan.  |

<sup>a</sup> *Federal Reserve Index of Industrial Production*, October 1943, pp. 25, 46.

on the weather or periodic changes in fashions and tastes.

We have seen that the durable goods industries in general are subject to greater fluctuations than nondurable goods. This does not mean, however, that all durable lines have fluctuated to about the same extent, or that all nondurable goods show more moderate fluctuations than do the durables. As we examine production, employment, and pay rolls for particular industries,

it will become apparent that each has a pattern of its own and, by the same token, that they differ in their capacities for stabilizing employment and pay rolls.

### Durable Lines

Let us start with the basic *iron and steel* industry, and compare it with some of the industries that are closely tied to it. Following are the indexes for production, employment, and pay rolls in iron and steel for key years in the interwar period, 1935-39 = 100:

| Year      | Production | Employment | Pay Rolls |
|-----------|------------|------------|-----------|
| 1923..... | 109        | 109        | 123       |
| 1929..... | 133        | 108        | 128       |
| 1932..... | 32         | 58         | 37        |
| 1940..... | 147        | 116        | 130       |

The rise in production from 1923 to 1929 follows the composite index of durable manufactures. But the drop of 80 per cent in production between 1929 and 1932 is much more drastic than that for durable manufactures as a whole. Employment and pay rolls held up slightly better in steel than they did in durable goods generally. On the upturn, after 1932, steel made a much better recovery than the average of the durable goods in all three factors of production, employment, and pay rolls. The 250 per cent increase during the latter 1930's brought the pay rolls in steel for 1940 slightly above the 1929 level.

The volume of production of iron and steel is dependent, of course, upon the demand for the product from the manufacturers that use the metals. It is of interest, therefore, to compare the year-to-year behavior of some of the chief steel-using lines. Their average monthly employment for the years we are considering is shown for the specified industries in the table on page 108.

In the table below it will be noted that some of the steel-using industries failed to register any rise in production during the general upswing between 1923 and 1929. Hardware, for example, remained stationary,

EMPLOYMENT IN STEEL USING INDUSTRIES<sup>a</sup>  
(1923-25 average = 100)

| Commodity                    | 1923  | 1929  | 1932              | 1940  |
|------------------------------|-------|-------|-------------------|-------|
| Machine tools.....           | 108.1 | 167.2 | 42.1              | 233.3 |
| Agricultural implements..... | 110.2 | 145.0 | 36.5              | 137.4 |
| Tin cans.....                | 101.0 | 104.0 | 73.3              | 99.4  |
| Electrical machinery.....    | 103.0 | 127.3 | 60.6              | 108.0 |
| Structural steel.....        | 104.4 | 111.2 | 43.3 <sup>b</sup> | 77.6  |
| Radios and phonographs.....  | 89.5  | 204.5 | 80.4              | 144.4 |
| Automobiles.....             | 100.6 | 111.3 | 60.5              | 111.3 |
| Shipbuilding.....            | 114.5 | 101.3 | 56.8 <sup>b</sup> | 172.2 |
| Hardware.....                | 101.6 | 101.7 | 58.9              | 98.8  |

<sup>a</sup> U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Supp., 1942, p. 39.

<sup>b</sup> Low point in 1933. ■

while shipbuilding actually declined in employment by nearly 13 per cent. Radios and phonographs, by contrast, more than doubled during those six years. On the downturn, we have at one extreme the index for machine tools, highly sensitive to the expansion and contraction of manufacturing activity, which declined by more than three fourths and then increased more than six-fold during the next eight years. Structural steel, which underwent a decline of nearly 60 per cent, and which reached its low point in 1933 rather than in 1932, failed to rise by 1940 to anything like its average for the earlier years. In radios and phonographs the index for 1940 was 35 points lower than that of 1936.<sup>9</sup> In automobiles, the rise between 1923 and 1929 was moderate. Automotive employment hit the low point in 1933; by 1940, it had barely matched the employment of 1929. Its best year before the war was 1937, when the index was 17 points

<sup>9</sup> U.S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Supp., 1942, p. 39.

above that of 1929. In agricultural machinery, the best interwar year was likewise 1937, in which employment (at 174) was at least 20 per cent higher than in either 1929 or 1940.

The figures on employment, for which reports made to the Bureau of Labor Statistics are the source, give the number of people at work on a given day in each month. They do not indicate whether those people are full-time or part-time workers. The drop in the number of employees during depression may depend, therefore, on how many part-time workers are attached to the industry. For the same reason, and because of different timing of wage adjustments, the relation between employment and pay rolls may differ with the lines of industry. The pay rolls of steel-using industries listed above are compared in the summary table which follows:

PAY ROLLS IN STEEL-USING INDUSTRIES<sup>a</sup>  
(1923-25 average=100)

| Commodity                    | 1923  | 1929  | 1932              | 1940  |
|------------------------------|-------|-------|-------------------|-------|
| Machine tools.....           | 105.3 | 187.6 | 28.6              | 311.3 |
| Agricultural implements..... | 110.1 | 154.4 | 23.5              | 160.3 |
| Tin cans.....                | 97.7  | 113.6 | 65.8              | 107.3 |
| Electrical machinery.....    | 100.1 | 134.4 | 39.7              | 124.8 |
| Structural steel.....        | 104.0 | 112.8 | 23.9 <sup>b</sup> | 69.1  |
| Radios and phonographs.....  | 88.1  | 202.9 | 60.5              | 137.9 |
| Automobiles.....             | 100.6 | 111.6 | 38.8              | 121.1 |
| Shipbuilding.....            | 112.8 | 109.7 | 54.1              | 200.4 |
| Hardware.....                | 100.1 | 106.9 | 38.4              | 106.8 |

<sup>a</sup> U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Supp., 1942, p. 49.

<sup>b</sup> Low point 1933.

It will be seen that the pay-roll trends run all the way from 35 per cent decline in the pay rolls of structural steel to a three-fold increase in the pay rolls of machine tools. In the case of tin cans and hardware, we have a reduction in the number employed coupled with an increase in pay rolls.

The automobile industry, chief user of steel products, is notable for the fact that its employment and pay rolls kept pace with production over the two decades. (Automobile production in 1940 was about 12 per cent higher than in 1923.) Indexes for key years were as follows:

| Year      | Production | Employment | Pay Rolls |
|-----------|------------|------------|-----------|
| 1923..... | 105        | 104        | 104       |
| 1929..... | 139        | 115        | 116       |
| 1932..... | 36         | 63         | 40        |
| 1940..... | 118        | 113        | 125       |

Along with the iron and steel products, the most important durable goods areas are in *nonferrous metals, stone, clay, and glass products, lumber and furniture*. Of these, lumber has by far the widest fluctuations, although brick and tile, another component of the construction group, is not far behind. The indexes of employment and pay rolls in these industries are given below:

EMPLOYMENT<sup>a</sup>  
(1923-25 average=100)

| Commodity              | 1923  | 1929  | 1932              | 1940  |
|------------------------|-------|-------|-------------------|-------|
| Nonferrous metals..... | 104.8 | 110.2 | 58.0              | 114.1 |
| Lumber.....            | 103.6 | 87.7  | 31.7              | 62.7  |
| Furniture.....         | 98.1  | 111.9 | 57.4              | 91.2  |
| Brick, tile, etc.....  | 100.6 | 91.5  | 31.3 <sup>b</sup> | 61.2  |
| Glass.....             | 103.4 | 100.9 | 45.5              | 117.6 |

<sup>a</sup> U.S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Supp., 1942, pp. 40, 49.

<sup>b</sup> Low point 1933.

PAY ROLLS<sup>a</sup>  
(1923-25 average=100)

|                         |       |       |                   |       |
|-------------------------|-------|-------|-------------------|-------|
| Nonferrous metals ..... | 102.8 | 115.3 | 38.6              | 117.3 |
| Lumber.....             | 102.5 | 90.7  | 18.4              | 57.9  |
| Furniture.....          | 96.9  | 114.0 | 34.6              | 81.0  |
| Brick, tile, etc.....   | 98.1  | 84.7  | 15.0 <sup>b</sup> | 47.1  |
| Glass.....              | 103.4 | 100.9 | 45.5              | 117.6 |

<sup>a</sup> U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Supp., 1942, pp. 40, 49.

<sup>b</sup> Low point in 1933.

In the case of lumber and brick, we have a reflection in the manufacturing components of the out-of-line behavior of the construction industry as compared with production in general. The peak year of 1929 for other industries was merely a continuation of several years of decline, reaching by 1933 a level that was less than one sixth of what it had been ten years before. The recovery was only enough to bring the industry by 1940 to one half of what it had been in the middle twenties. The behavior of the furniture index reflects the decline in housing construction after 1926, but as a consumer item with replacements due to changes in tastes, it was more stable than the construction lines.

Among the durable goods industries we have an outstanding and special case in aircraft. In employment, which was 250 per cent higher in 1932 than in 1923, the index increased to 32 times its 1923 level by 1940. Pay rolls likewise spurted from a base of 100 in 1923-25 to an index of 3,399.7 for 1940.

### Nondurables

The testimony of the combined indexes, that nondurable manufactures are less sensitive to cyclical changes than are the durables, is borne out in the records of individual industries. But not all the industries follow the composite rate of increase and decline, or the timing of rise and fall in the composite index for nondurables. Some even follow a pattern not related to the general upswings and downturns. Using the same procedure as was followed with specific durable goods industries, an array showing the behavior of representative nondurables in significant years is given in the table on page 112. These single-industry indicators for produc-

tion, employment, and pay rolls may then serve as the basis for our discussion.<sup>10</sup>

PRODUCTION IN NONDURABLES<sup>a</sup>  
(1935-39 average = 100)

| Commodity                                    | 1923 | 1929 | 1932             | 1940 |
|--|------|------|------------------|------|
| Chemicals.....                               | 57   | 89   | 68               | 114  |
| Meat packing .....                           | 123  | 115  | 108 <sup>c</sup> | 125  |
| Shoes.....                                   | 87   | 89   | 77               | 100  |
| Rayon.....                                   | 10   | 42   | 46               | 138  |
| Textile fabrics.....                         | 86   | 101  | 75               | 111  |
| Apparel, wool consumption <sup>b</sup> ...   | 111  | 90   | 67 <sup>d</sup>  | 110  |
| Rubber tires and inner tubes <sup>b</sup> .. | 93   | 135  | 77               | 114  |
| Tobacco.....                                 | 84   | 96   | 79               | 109  |
| Sulphate pulp production <sup>b</sup> ....   | 15   | 44   | 48               | 175  |

<sup>a</sup> U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Supp., 1942, pp. 8-10.

<sup>b</sup> *Federal Reserve Index of Industrial Production*, October 1943, p. 65.

<sup>c</sup> Low point, 60 in 1934.

<sup>d</sup> Low points, 86 in 1935; 94 in 1937.

In the composite of nondurable manufactures are included producers' lines of chemicals, pulp, textile yarns and fabrics, as well as familiar consumer lines like foods and apparel.<sup>11</sup> Among these are new industries and processes, like rayon manufactures and sulphate pulp production, which have maintained their upward trend with little regard for the ups and downs of the rest of the economy. Between 1923 and the depression year of 1933 the rayon industry increased thirteen-fold. During the same period the decline in beehive coke production was 97 per cent—practically a disappearance of the industry by 1932; by 1940 it had recovered only a small

<sup>10</sup> Detailed year to year data will be found in App., Table 5.

<sup>11</sup> The composite index of producers' nondurables maintained by the Federal Reserve Bank of New York contains the following components: cotton, wool, rayon and silk; commercial electricity (sales); bituminous coal; coke; crude petroleum; gas consumption; leather production; paints varnishes and lacquers; newsprint, paper production; fertilizer consumption; grain marketings; cotton marketings.

fraction of its loss.<sup>12</sup> In some industries, like tobacco, increased production has gone hand in hand with reduction in the number of employees.<sup>13</sup>

EMPLOYMENT IN NONDURABLES<sup>a</sup>  
(1935-39 average = 100)

| Commodity            | 1923  | 1929  | 1932  | 1940  |
|----------------------|-------|-------|-------|-------|
| Chemicals.....       | 85.8  | 88.6  | 61.7  | 114.0 |
| Meat packing .....   | 107.0 | 98.8  | 82.4  | 112.6 |
| Shoes.....           | 109.3 | 99.7  | 87.1  | 93.3  |
| Rayon.....           | 27.9  | 78.2  | 68.6  | 99.1  |
| Textile fabrics..... | 111.7 | 105.2 | 76.2  | 98.1  |
| Wearing apparel..... | 85.2  | 91.6  | 72.0  | 94.3  |
| Rubber tires.....    | 132.5 | 149.2 | 81.1  | 97.7  |
| Tobacco.....         | 161.2 | 128.0 | 100.1 | 97.5  |

<sup>a</sup> U. S. Bureau of Labor Statistics data, based on 1923-25; recomputed to 1935-39 = 100.

The nondurable lines of chemicals, textile fabrics, and rubber, followed the general industrial pattern to the decline of employment in 1932. Whereas chemicals bounced back to new high ground shortly thereafter, the output in textiles and rubber goods did not increase sufficiently to bring employment and pay rolls up to 1923 levels. Woolen yarn, a component of the textile group, had lower production in 1940 than in 1923.<sup>14</sup> Employment and pay rolls in the shoe industry were lower in 1940 than in 1923, though production had increased.

In the previous chapter on the experience with annual-wage plans, it was noted that two outstandingly

<sup>12</sup> *Federal Reserve Index of Industrial Production*, October 1943, p. 94.

<sup>13</sup> In this case, machine methods have multiplied output in cigarette manufacture, while cigars, with their greater unit labor cost, have declined in both production and employment.

<sup>14</sup> For woolen yarn index of production, see *Federal Reserve Index of Industrial Production*, October 1943, p. 66.

successful experiments in wage stabilization were those of Hormel in meat packing and Nunn-Bush in shoes. It is of interest, on that score, that of the industries for which we have systematic production data, meat packing and shoes have been among the least sensitive to cyclical fluctuation. The drop in prices and pay rolls in 1932, which swept across all industry, affected these industries

PAY ROLLS<sup>a</sup>  
(1935-39 average = 100)

| Commodity            | 1923  | 1929  | 1932 | 1940  |
|----------------------|-------|-------|------|-------|
| Chemicals.....       | 80.5  | 94.9  | 51.1 | 133.1 |
| Meat packing.....    | 104.7 | 103.6 | 67.1 | 118.3 |
| Shoes.....           | 141.9 | 126.1 | 76.9 | 93.5  |
| Rayon.....           | 33.3  | 80.4  | 53.4 | 116.9 |
| Textile fabrics..... | 132.6 | 124.3 | 63.0 | 102.9 |
| Wearing apparel..... | 114.4 | 120.2 | 62.0 | 98.6  |
| Rubber tires.....    | 128.3 | 150.1 | 54.6 | 109.5 |
| Tobacco.....         | 182.6 | 143.5 | 84.6 | 108.4 |

<sup>a</sup> U. S. Bureau of Labor Statistics data, based on 1923-25; recomputed to 1935-39 = 100.

as well. But, so far as physical production is concerned, the impact of the business cycle upon them is of minor import. The production of shoes for the year 1933 was less than 4 per cent below 1929, and it was 14 per cent higher than in 1930; in 1935, shoe production was above the level of any previous year. In meat packing the live-stock situation is more decisive than the cyclical position. The meat index was higher for the generally depressed year of 1933 than it was for the boom year of 1929. Moreover, the banner industrial year of 1937 was next to the lowest year in two decades for the meat-packing industry. (See table, page 115.)

In pork and lard the diversions of production trend from the general business trend are even more striking. While the index of pork and lard production stood at

PRODUCTION OF MEAT, SHOES, AND SOAP<sup>a</sup>  
(1935-39 = 100)

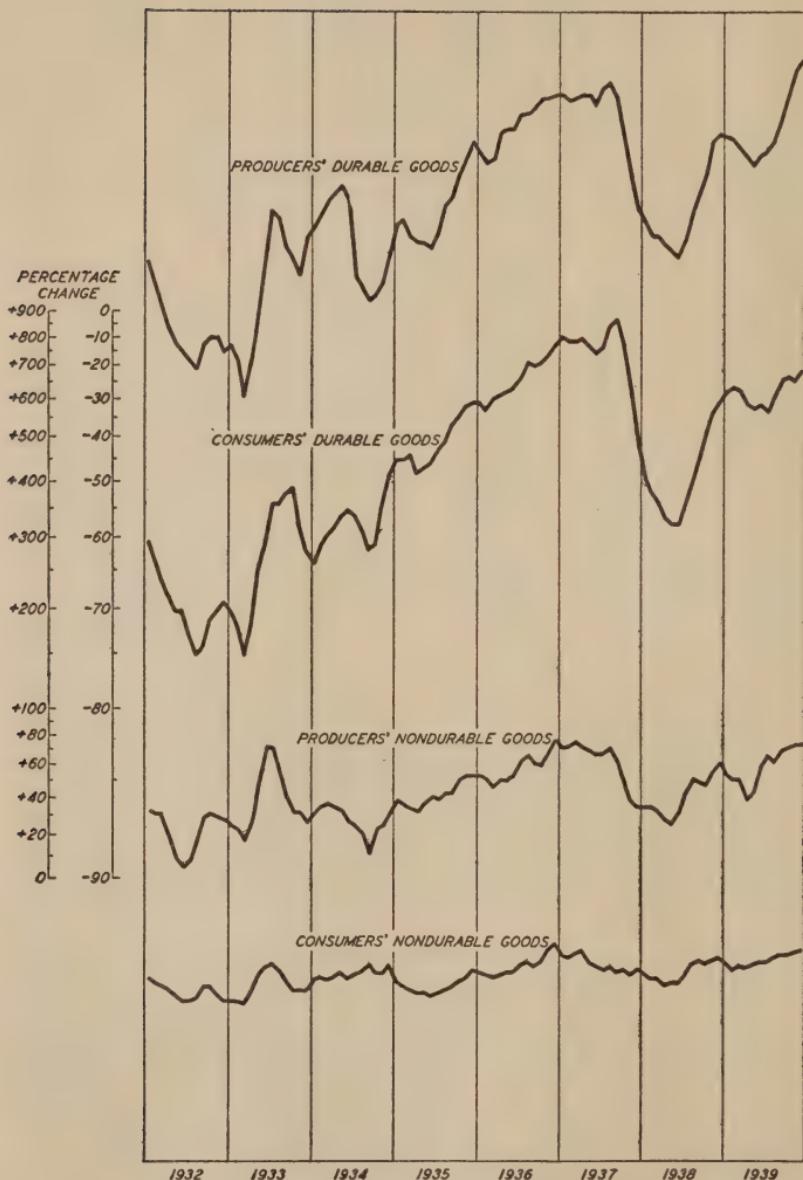
| Year      | Meat Packing | Shoes | Soap <sup>b</sup> |
|-----------|--------------|-------|-------------------|
| 1919..... | 110          | 82    |                   |
| 1920..... | 99           | 78    |                   |
| 1921..... | 97           | 71    |                   |
| 1922..... | 106          | 80    |                   |
| 1923..... | 123          | 87    |                   |
| 1924..... | 121          | 77    |                   |
| 1925..... | 110          | 80    |                   |
| 1926..... | 112          | 80    |                   |
| 1927..... | 113          | 85    |                   |
| 1928..... | 116          | 85    |                   |
| 1929..... | 115          | 89    |                   |
| 1930..... | 109          | 75    |                   |
| 1931..... | 111          | 78    |                   |
| 1932..... | 108          | 77    |                   |
| 1933..... | 119          | 86    |                   |
| 1934..... | 122          | 88    |                   |
| 1935..... | 86           | 95    | 91.7              |
| 1936..... | 105          | 102   | 100.0             |
| 1937..... | 94           | 102   | 96.0              |
| 1938..... | 103          | 96    | 102.6             |
| 1939..... | 112          | 105   | 109.7             |
| 1940..... | 125          | 100   | 105.3             |

<sup>a</sup> Federal Reserve Index of Industrial Production, October 1943, pp. 70, 74.

<sup>b</sup> Computed from quarterly data on pounds of soap produced, furnished by the Association of American Soap and Glycerine Producers, Inc., beginning with 1935. A standard index of production on soaps and fats is not available. Federal Reserve Board's production index on soap starts with 1939, for which it stood at 111, estimated on 1935-39 average = 100. For 1940, it was 113. The highest and lowest months varied about 6 per cent from the year's average.

133 and 143 for the years 1932 and 1933, respectively, it dropped to 75 in the drought year of 1935, and to 90 in the year 1937. We can see, therefore, that the appearance of stability in the general index for meat packing and slaughtering is the resultant of a combination of special conditions, which the diversification of production in the industry as a whole helps to iron out.

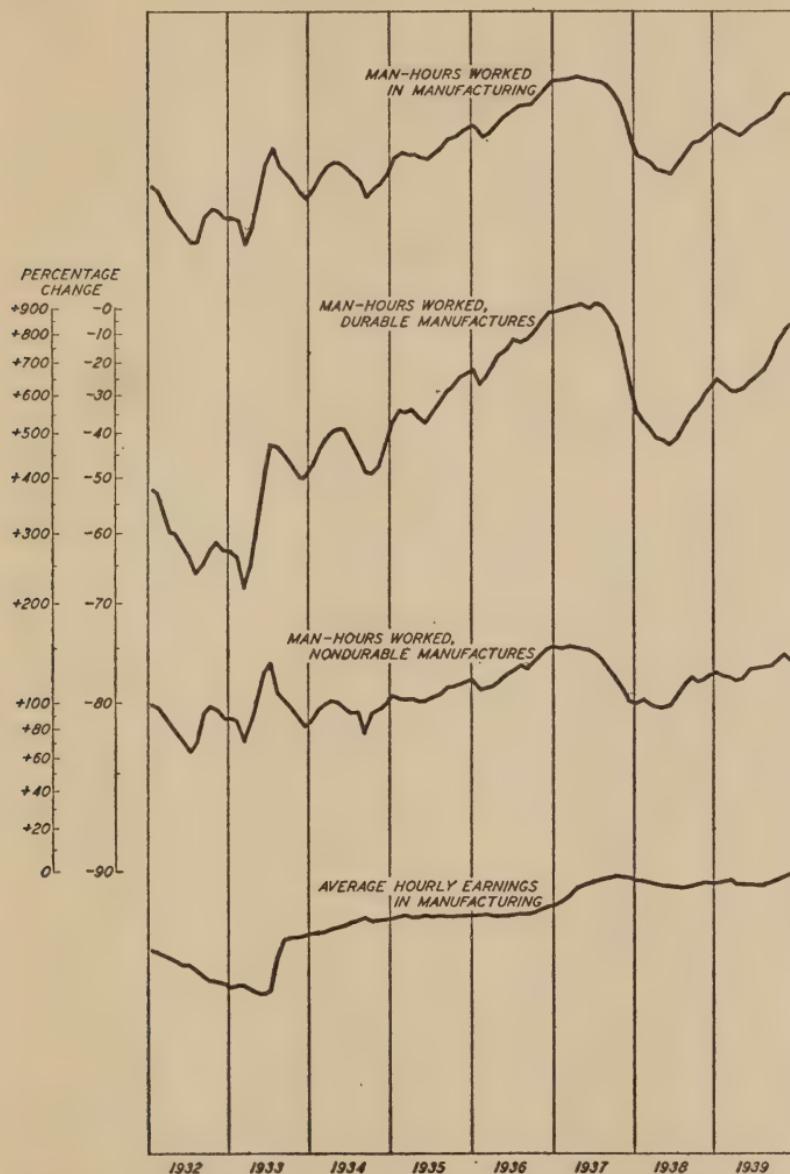
## MOVEMENT OF PRODUCTION AND I. PRODUCTION



<sup>a</sup> Arthur F. Burns and Wesley C. Mitchell, *Measuring Business Cycles* (1946), p. 84.

# EMPLOYMENT IN MANUFACTURES, 1932-39<sup>a</sup>

## II. EMPLOYMENT AND HOURLY EARNINGS



It will be recalled that the stabilization program of the Procter and Gamble Company, covering its soap plants, provides for continuity of employment but makes no commitments as to annual wages. Systematic data on physical output are available for the soap industry only from 1935. In that short series it may be noted (table on page 115) that the general business depression of 1938 had no apparent effect on the output of soap. On the other hand, a series on the dollar sales, going back to 1921, indicates that the product has been subject to marked fluctuations in price, with a drop of more than 35 per cent in dollar value of sales between 1929 and 1933, and a stable dollar value over the later years of the thirties.<sup>15</sup> Under these circumstances it may be seen that the soap companies, as in the case of the Nunn-Bush Shoe Company, might distinguish between stability of the dollar totals of pay roll and stability of employment.

*Producers' Nondurables.* In dealing with the likenesses and contrasts in cyclical behavior among manufacturers, we have made a distinction between durables and nondurables. Within this classification, the distinction between producers' and consumers' goods must be recognized. The chart on pages 116-17, which shows the behavior curves in the areas under discussion, indicates that in durable manufactures, consumer lines follow the producer lines very closely, both as to intensity and timing of fluctuations.

In the case of the nondurable lines, however, we find not only a greater fluctuation of producers' goods as compared with consumers', but also some notable differences in the timing of the changes. For example, a cycle could be constructed for producers' durable goods with a high

<sup>15</sup> See Standard & Poor's, *Industry Surveys, Soaps and Vegetable Oils*, March 1, 1946, p. S2-5.

point in midyear of 1933 and a low point in the fall of 1934, and with a rise from there to the end of 1936. Consumers' nondurable goods show a recession in the midyear of 1935 which the producers' lines largely escaped. The turning point in 1936 for nondurables is earlier by several months than the turning point in durables, which continued upward to the fall of 1937. An employment guarantee based on the expectation of a rise from the levels of 1933 would have been less tenable in the case of producers' nondurables than it would have been either for consumers' goods or for producers' durable goods.

As we go over the cyclical movements of one industry after another, it becomes patent that each separate line has special characteristics. On the one hand, it is more or less sensitive to the behavior of related lines of business from which it may draw its supplies or customers. To that extent it is not a free agent in determining its individual future. On the other hand, each industry differs from others in the way that it is affected by changes in the weather, tastes, technology, industrial disputes, etc. To that extent its own pattern of production and employment may differ from that of otherwise closely related industrial sectors.

#### SEASONAL VARIATIONS

It has already been pointed out that in the manufacture of durable goods, seasonal variations play a less important role than in nondurables.

*Durables.* In durables one seasonal pattern may readily give way to a different one as general business conditions go up or down. In the key durable goods line of pig iron production, the volume fluctuated in 1939 between 95 and 105 per cent of the yearly average. This

is shown by the figures that are given below:<sup>16</sup>

| Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|------|------|------|------|-----|------|------|------|-------|------|------|------|
| 95   | 99   | 105  | 105  | 105 | 101  | 98   | 99   | 99    | 100  | 100  | 95   |

The pattern for 1940 was the same. (After December 1940, the seasonal pattern disappeared.)

To take another basic line of producers' durables, the seasonal pattern for machinery computed for the year 1939 is as follows:<sup>17</sup>

| Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|------|------|------|------|-----|------|------|------|-------|------|------|------|
| 97   | 100  | 102  | 102  | 102 | 101  | 97   | 98   | 98    | 102  | 100  | 101  |

The first half of 1940 followed the same pattern as 1939, and thereafter the seasonal factor was negligible.

We have a different situation from the above in the *automotive industry*. As a consumer product, with year-to-year changes in model, it follows a year-round pattern in which production is concentrated from October to April and tapers off during the late spring and summer. After the adoption in 1935 of the policy of introducing the new models in the late fall, peak demand was divided. The peak demand within the year, coupled with an industry policy for the advance building of sub-assemblies, has had a moderating effect on the ups and downs in employment.<sup>18</sup> The industry is still amenable, however, to the marked preference of the public for purchasing cars in the spring.

Automotive employment and pay rolls have a broader seasonal range than does production. The month-to-

<sup>16</sup> *Federal Reserve Index of Industrial Production*, October 1943, p. 20.

<sup>17</sup> The same.

<sup>18</sup> According to data submitted by the Automobile Manufacturers Association in December 1936 (Andrew T. Court, Research Director), the increase of steady jobs was from 51 per cent of total jobs in 1933-34 and 56 per cent in 1934-35, to 69 per cent in 1935-36.

month record for employment and pay rolls (1935-39 average = 100) is as follows:<sup>19</sup>

|                    | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|--------------------|------|------|------|------|-----|------|------|------|-------|------|------|------|
| <b>Employment:</b> |      |      |      |      |     |      |      |      |       |      |      |      |
|                    | 108  | 107  | 106  | 104  | 95  | 94   | 78   | 72   | 101   | 110  | 105  | 121  |
| <b>Pay Rolls:</b>  | 104  | 100  | 99   | 102  | 90  | 91   | 75   | 77   | 105   | 116  | 109  | 131  |

The percentage of established workers or of workers of given skills varies with different times of the year and at successive stages of the production process. For the year 1939, the number of wage earners employed on automobiles, bodies, and parts fluctuated from 292,000 in the low month to 485,000 in the high. This meant that employment in the low month was roughly 60 per cent of employment in the high month.

*Lumber production*, dependent on the seasonal operations in logging, shows greater seasonal fluctuation than pig iron production and machinery. But it is not subject to as marked a seasonal demand as automobile production. The computed seasonal pattern for lumber as given for 1939 is as follows:<sup>20</sup>

|  | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|--|------|------|------|------|-----|------|------|------|-------|------|------|------|
|  | 87   | 87   | 95   | 100  | 107 | 108  | 107  | 109  | 110   | 107  | 97   | 88   |

At the low point in January and February, lumber was about 13 per cent below the yearly average, while in September it was between 10 and 11 per cent above the average. That spread seems relatively insignificant, as compared with the year-to-year fluctuations to which lumber production has been subject.

*Nondurables.* It is in the nondurables that the seasonal

<sup>19</sup> Derived from data in U.S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Supp., 1942, pp. 40, 49.

<sup>20</sup> *Federal Reserve Index of Industrial Production*, October 1943, p. 20.

factor is often found to be more pronounced than are the year-to-year changes. In the major nondurable lines the available data show that seasonal lows and highs do not vary by more than 10 per cent from the yearly average. This general statement is true of woolen goods generally, raw and semiprocessed leathers, paper, paints, gasoline, soap, cigarettes, and even fuel oil. But the exceptions are numerous and important in their need of extra help in certain months.

In the group of manufactured foods, we have a stable base in wheat flour; only the figure for September deviates as much as 10 per cent from the monthly average for flour manufacture. Dairy products have a contrasting behavior. Cheese production varies from 70 per cent of the yearly average in December to more than 150 per cent in June. An even more exaggerated pattern, as may be expected, applies to ice cream, where the January figures are 50 per cent of the yearly average, and July is 167 per cent of the average.

*Processed fruits and vegetables*, following the growing season, range from a low of 59 in January to around 220 in September. But this over-all figure obviously hides even greater extremes in respect to individual fruits and vegetables, some of which are processed in only a single month of the year. If one were seeking the line of nondurable manufactures with the widest variation, he should probably find it in the case of distilled spirits, production of which hit a low of about 47 in mid-summer and a high of 260 in the fall.

Though the *apparel industry* is precarious because of changes in fashions, the consumption of apparel wool varied only from a low of 94 to a high of 108 in the year 1939. It is in the demarcation of styles and crafts in the final consumer product, that the seasonal dispari-

ties widen. They show up especially in pay-roll variations. The monthly variations in employment and pay rolls for wearing apparel, are indicated below:<sup>21</sup>

|                    | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|--------------------|------|------|------|------|-----|------|------|------|-------|------|------|------|
| <b>Employment:</b> |      |      |      |      |     |      |      |      |       |      |      |      |
|                    | 96   | 104  | 107  | 103  | 97  | 94   | 92   | 102  | 104   | 104  | 99   | 97   |
| <b>Pay rolls:</b>  | 92   | 109  | 117  | 99   | 92  | 90   | 87   | 108  | 101   | 108  | 98   | 99   |

*Coal* production is among the highly seasonal industries, with many of the mines operating less than 200 days in the year. The total production figures hide extreme differences in operation between one mine and another, depending on the character of the coal or the market within reach. Moreover, coal production as a whole has much sharper variations from a low to a high month in a dull production year than in a high production year. For the year 1939, as an example, the Federal Reserve Board monthly index of bituminous coal production shows a range from 31 per cent of the monthly average in April to 138 per cent in October. Yet in the revision of October 1943, the Board's seasonal adjustment factors for bituminous coal range only from a low of 84 per cent in April to a high of 117 per cent in February.<sup>22</sup>

A few of the more representative seasonal adjustment factors as worked out by the Federal Reserve Board are given in the table on page 124.

As one goes over the entire list of manufactures for which seasonal adjustment factors have been systematically worked out, it would appear that for industry in

<sup>21</sup> U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Supp., 1942, pp. 41-50.

<sup>22</sup> *Federal Reserve Index of Industrial Production*, October 1943, pp. 23, 99.

general, the seasonal factor is a manageable element in the sense that the month-to-month deviations in volume of production, considered apart from cyclical behavior, are within limits that would permit an averaging of

SEASONAL FACTORS FOR SPECIFIED INDUSTRIES, 1939\*

|                                       | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|---------------------------------------|------|------|------|------|-----|------|------|------|-------|------|------|------|
| Machinery....                         | 97   | 100  | 102  | 102  | 102 | 101  | 97   | 98   | 98    | 102  | 100  | 101  |
| Pig Iron....                          | 97   | 99   | 105  | 105  | 105 | 101  | 98   | 99   | 98    | 100  | 100  | 95   |
| Automobiles....                       | 103  | 103  | 106  | 109  | 98  | 94   | 76   | 75   | 98    | 114  | 114  | 110  |
| Lumber....                            | 87   | 87   | 95   | 100  | 107 | 108  | 107  | 109  | 110   | 107  | 97   | 88   |
| Cement....                            | 53   | 57   | 79   | 99   | 116 | 120  | 120  | 119  | 120   | 120  | 108  | 89   |
| Apparel wool<br>consumption....       | 98   | 108  | 101  | 94   | 100 | 100  | 95   | 104  | 100   | 96   | 101  | 103  |
| Shoes....                             | 96   | 108  | 111  | 101  | 98  | 90   | 101  | 113  | 109   | 99   | 89   | 85   |
| Wheat flour....                       | 101  | 99   | 97   | 94   | 92  | 94   | 99   | 101  | 115   | 108  | 103  | 97   |
| Cheese....                            | 72   | 78   | 86   | 101  | 134 | 153  | 128  | 112  | 101   | 91   | 75   | 69   |
| Ice Cream....                         | 50   | 60   | 77   | 96   | 136 | 158  | 167  | 159  | 108   | 75   | 60   | 54   |
| Pork and lard....                     | 130  | 100  | 93   | 92   | 100 | 97   | 90   | 75   | 80    | 94   | 117  | 132  |
| Beef....                              | 100  | 90   | 91   | 93   | 100 | 98   | 101  | 101  | 112   | 109  | 105  | 100  |
| Processed fruit<br>and vegetables.... | 59   | 56   | 59   | 65   | 67  | 88   | 123  | 202  | 216   | 125  | 75   | 65   |
| Distilled spirits....                 | 65   | 60   | 65   | 60   | 60  | 59   | 47   | 48   | 137   | 265  | 210  | 124  |
| Cigarettes....                        | 99   | 94   | 93   | 93   | 104 | 110  | 112  | 105  | 107   | 99   | 95   | 89   |
| Newsprint....                         | 100  | 99   | 100  | 102  | 101 | 101  | 98   | 97   | 100   | 100  | 102  | 100  |
| Gasoline....                          | 96   | 97   | 95   | 99   | 100 | 102  | 103  | 103  | 103   | 103  | 101  | 98   |
| Soap....                              | 98   | 99   | 100  | 98   | 97  | 98   | 99   | 101  | 104   | 105  | 101  | 100  |
| Bituminous<br>coal....                | 111  | 117  | 96   | 84   | 85  | 86   | 98   | 92   | 104   | 112  | 114  | 111  |
| Anthracite....                        | 116  | 110  | 103  | 107  | 110 | 92   | 78   | 74   | 96    | 106  | 102  | 106  |

\* *Federal Reserve Index of Industrial Production*, October 1943, pp. 21-23.

weekly or monthly wages. There are obvious exceptions, like the processing of perishable crops, which require temporary help for a short run.

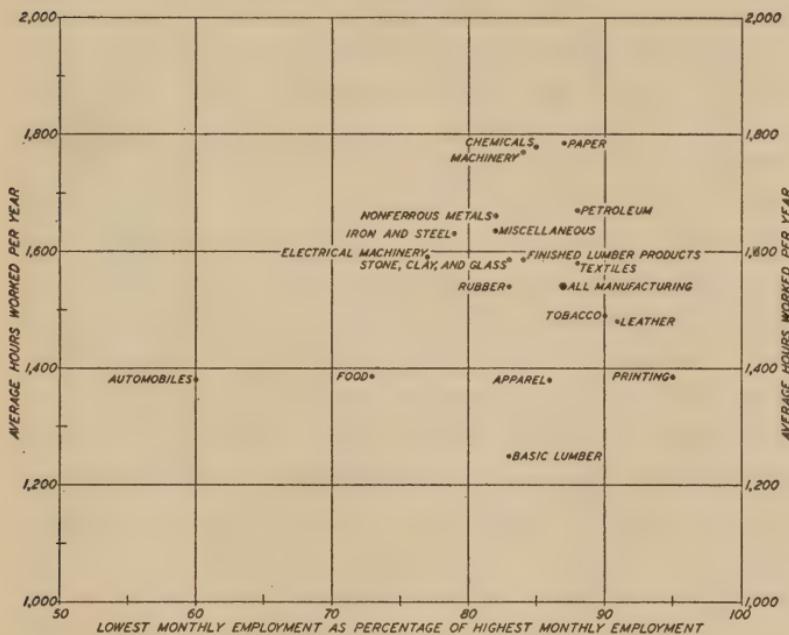
#### SEASONAL VARIATION AND TOTAL HOURS WORKED

In connection with the problem of seasonal variation, the distinction should be made between seasonal regularity and year-to-year stability. It is possible for an industry to show little seasonal variation from month to month and yet have chronic unemployment, as has for many years been characteristic of the coal industry or the printing industry. Contrariwise, an industry with a decided seasonal pattern may, nevertheless, provide a substantial number of hours of work year after year (or may permit work of another kind to dovetail neatly

with the off hours in the given industry). The chart below illustrates this distinction.

In the year 1939 the low month in printing and publishing was only 5 per cent below the high month in employment—a variation of only 17,000 among a labor

#### FLUCTUATION IN EMPLOYMENT COMPARED WITH AVERAGE HOURS WORKED PER YEAR, 1939<sup>a</sup>



\* For data see App. Table 8, p. 259.

force of 339,000. Yet the average number of hours worked annually—between 1,380 and 1,390—was almost the same as the average total hours of employment in the automotive industry, where the low month was only 60 per cent of the high month. To take a related example, the apparel and the chemical industries showed approximately the same variation between low and high months. While the apparel industry furnished an aver-

age of only 1,380 hours of work per year, the average for the chemical industries was close to 1,800 hours of work per year.

These variations serve to point up the fact that month-to-month variations must be considered together with total yearly hours in determining the capacity of industry to make year-round commitments.

#### WAGES VERSUS SALARY TRENDS

The assumption that salaried workers generally enjoy steadier earnings and employment than do the wage earners, is due largely to the nature of the service fields in which salaried workers predominate. When wages and salaries are compared within the same industrial area, the differences in the movement of employment and pay rolls between salaried and wage workers are less marked. Data are available for comparing the employment and pay rolls of wage earners and salaried workers separately in manufactures over the period 1929-39 inclusive. Taking the first and last years of this period, along with the intermediate low and high points of 1932-37, respectively, aggregate salaries compared with aggregate wages for the bulk of manufactures as follows:<sup>23</sup>

|                          | 1929   | 1932  | 1937   | 1939  |
|--------------------------|--------|-------|--------|-------|
| Salaries                 |        |       |        |       |
| Millions of dollars .... | 4,864  | 2,938 | 4,159  | 4,075 |
| Per cent of 1929 .....   | 100    | 57    | 85     | 84    |
| Wages                    |        |       |        |       |
| Millions of dollars .... | 10,871 | 4,597 | 10,113 | 9,244 |
| Per cent of 1929 .....   | 100    | 45    | 97     | 85    |

It will be noted that salaries did not drop in 1932 as precipitously as did wages, but neither did they come back in 1937 to the extent that wages did. Salaried workers wound up at the end of the period with a slightly smaller percentage of the 1929 total pay roll than did

<sup>23</sup> For the detailed year-to-year data on 22 lines of manufacturing and mining the reader is referred to App., Table 5, pp. 254-55.

the wage earners. For the wage earners, the average yearly pay roll during the eleven-year period was 71.2 per cent of the aggregate for the peak year of 1929. For the salaried workers, the yearly average during the period would be about 77 per cent of the 1929 pay roll.

In respect to employment, we get a somewhat similar situation. The number of wage earners for manufactures dropped from 8.3 millions in 1929 to 5.2 millions in 1932—a loss of roughly 40 per cent. By 1937, employment rose to 8.5 millions. In 1939, it was just under 8 millions—that figure being about 4 per cent under the corresponding 1929 total. In the case of salaried employees, their low point in 1933 was a loss in numbers from 1929 of about 30 per cent. Their comeback from 1.3 million in 1933 to 1.8 million in 1939 put the employment for salaried workers, like wage earners, at 4 per cent under the 1929 figure. We get approximately the same ratio of salaried workers to wage earners over the eleven-year period, except that both the decline and the comeback in numbers and pay rolls are sharper in the wage-earner group than in the salary group. What we are unable to compare from these totals is the rate of labor turnover, whether due to marriages of female workers, or changes of occupation; obviously they do not show up in net totals.

#### POSTWAR READJUSTMENT

In the previous chapter, dealing with the wage security plans adopted by representative companies, we saw the importance of timing—of starting from a level of commitments that can be maintained or bettered. What is a reasonable norm for employment and pay rolls can be known only as the peacetime bases for individual lines of industry are more firmly established.

Industrial production doubled within the three years following the early stages of the defense program in

1940. Nonagricultural employment in general, went up by about 30 per cent, and factory employment by nearly 70 per cent, while factory pay rolls trebled. From the wartime peak of late 1943 the index of physical production had dropped by nearly a third during the six months following the end of the war. But the decline was concentrated in munitions, transportation equipment, and machinery.

The change in the level of industrial production during the year following the German surrender, varied all the way from a fall of 90 per cent in aircraft engines, 78 per cent in private shipbuilding, and 74 per cent in aluminum products, to practically no change in wheat flour, paper, and manufactured dairy products; and with typical increases of 4 per cent in fertilizer, 5 per cent in glass containers, 16 per cent in distilled liquors. Meanwhile, residential construction was increased tenfold between the mid-years of 1944 and 1946.<sup>24</sup>

Whatever may be taken as the first normal postwar year will probably be considerably higher at production, pay-roll, and employment levels than those of the last prewar year. Present indicators point to an order of magnitude for a first "normal" year about 40 per cent above the 1940 levels. But the process of attaining something like a peacetime equilibrium involves the resolving of currently disruptive factors such as scarcities due to work stoppages; imbalances in the structure of prices; a sharp general rise in the cost of living from wartime levels; and the state of uncertainty that is reflected in the spotty character of inventories and capital investments and consumer demand. These are not presently capable of statistical measurement.

<sup>24</sup> U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, April 1946, p. 6. Also current indexes in Federal Reserve bulletins.

## RECAPITULATION—THE PATTERN IN RELATION TO EMPLOYMENT SECURITY

The background data that have been reviewed in this chapter lead to some general observations that have a bearing on our later consideration of the economic effects of expanded annual-wage guarantees.

The general rise in production and employment that has gone with the increase in population, its urbanization, and its adaptation to technological changes, has been the result of advances in some areas of our economic life and declines in others. Improvements in methods of production may enable an industry to increase output, and at the same time release workers to other fields. This was notably the case in agriculture.

A rise in production in one industry may have its profoundest effect on employment outside of the given industry. It is significant that a 30 per cent rise in industrial production during the upswing of 1923 to 1929, had relatively little effect on employment or pay rolls in lines of manufacture that notably increased their output. The effect was felt in the development of new highways; in the multiplication of dealer agencies, and of repair shops for electrical and other mechanized equipment; the opening of additional restaurants, amusements, filling stations, and neighborhood activities for which the new product developments in industry provided the stimulus and the means.

The additional raw materials and distributive services that accompany a marked increase of industrial production undoubtedly help to create those additional demands which serve to absorb the increased output of industry. Indeed, in an improving economy it requires continuing increase in output of industrial production to maintain the workers that are already attached to the in-

dustry; just as it takes increasing demand on the part of those in extractive, distributive, and service lines to maintain the levels of employment in manufactures. By the same token, the changes in consumer preferences which inevitably accompany a net rise in the standard of living, must be met by corresponding shifts of employment from the areas of declining demand to the areas of increasing demand. The creation of a new rayon industry is possible only if it can draw talent, capital, and manpower from other areas of industry.

The rise in industrial production in the twenties without appreciable increases in employment and pay rolls, reflects the large part played by the introduction of new and improved capital equipment into the production process. During the recession of the thirties, when the influence of investment in new capital equipment was diminished, the basic working crews of employment were not reduced in proportion to the fall in volume of output. But the reductions in pay rolls were drastic—even sharper than the fall in output. The pay-roll reductions represented a combined effect of fewer workers employed, fewer hours of work available to those retained, some lowering of wage rates, and the retention of employees with greater average efficiency than during the boom.

In the recovery of the 1930's, pay rolls rebounded more rapidly than did employment. The pay roll increases reflect the return of better wage rates. They also represent a rise in real income so far as there was a general reduction in the number of hours per full-time week and a drop in the cost of living during the 1930's.

The available employment data giving the rise and fall in the number on the pay roll at a given time do not accurately reflect the position of those who are regarded

as regular employees. During the boom, extra hands are taken on who may take advantage of the temporary opportunities. Nearly 100 per cent of these may lose their jobs in the recession, while the bulk of the regulars are retained. The problem of the annual wage may thus become in effect a question of the extent to which such extra employees should become permanently attached in the given company or industry. By the same token, the guarantee of annual wages to those with seniority would have little effect on the permanent attachment of the extra hands. If, on the other hand, the extra hands were to be guaranteed a share in total pay rolls, the effect of such commitments will be felt—and they will be considered in a later chapter—on the movement of workers from declining to advancing lines of industry; on the average earnings of all those attached to the industry under guarantees; on the flexibility of wage rates and community prices, and the expansibility of the market for the product.

There is a sympathy of movement in the main series of production, employment, and pay rolls over the bulk of the economy. We have seen, however, that the surface correspondence to these over-all movements tends to sublimate marked differences in behavior between industries and between sub-areas of major industries. There is in general a more marked cyclical fluctuation in durable manufactures, construction, and mining, than in the less durable and hence the less deferable lines. But within this general classification of durables or non-durables there can be a marked difference in behavior as between producers' lines and consumers' lines; also between those subject to changes in fashion, and the weather, and those that represent relatively stable demand in the kind and in the amount of goods desired.

In the examination of those lines that have come to the fore as areas of successful arrangements for employment and wage guarantees, the year-to-year stability of demand has been striking. Yet even there considering the differences in the pattern of individual firms in their choice and combinations of specialties, it might be difficult for competing worker groups or managements to accept uniformity in their respective guarantee patterns.

For industry by and large, seasonal variation is a more manageable factor than year-to-year changes. The recurrence of the seasonal factor makes the differences in employment calculable and subject to an averaging of pay rolls over the year. Indeed, it is not uncommon for industries with high seasonal factors to achieve a substantial and steady number of annual hours of employment year after year, when cyclical disturbances do not enter. The changes in consumer tastes within a given year are not likely to be appreciable except in fashion items, where the added gains for those who guess right are offset by the losses of those whose guesses prove wrong. But to encompass the extreme cases of cyclical fluctuation would seem to require the building up of withholdings or reserves from the pay-roll totals over a number of years to take care of a sudden halt in the demand for the affected lines, particularly of the durable and deferable type.

The background laid in this chapter has dealt mainly with changes in totals of manpower, output, employment, and pay rolls. The data tend to bear out and emphasize the fact that ours is an economy of changing preferences and shifting demands for goods, which have their counterpart in the fluctuations of employment and pay rolls. The rise of some industries has its counterpart in the decline and displacement of others. Periods of high

protection and employment have been characterized by heavy turnover, as expanding industry competes for labor.

In the year-to-year records, we see that free choices of consumers and of producers who have to estimate their needs, do not result in symmetrical operation of the economy. When consumers, for example, have moved heavily into the purchase of houses and automobiles, and other durable goods, they have committed themselves to instalments and upkeep charges which must eventually react in foregoing what were formerly normal requirements for other goods, including staples like clothing or traditional services. Adjustments to these changes in distribution of individual incomes have their parallel in the distribution of business incomes which may move heavily into fixed capital equipment at one time and then may halt as capacity overrides demand or as the need for current inventory may reduce the ability to continue the rate of capital investment.

It may be possible by fiat or voluntary discipline to reduce the freedom of choice in the use of the consumers' dollar or the producers' dollar so as to slow down the dynamics of the economy that have been revealed in the data presented in this chapter. A consciousness of the social impact of the economic changes upon individual families has already led to ameliorative measures, like unemployment compensation, which do not directly attack the problem of economic freedom of choice. How far do we wish to go in remodeling our society to limit competition and freedom of demand preference, to achieve that greater symmetry? This is a subject for later discussion.



## PART II

### THE IMPLICATIONS OF INDUSTRY-WIDE GUARANTEES

With the background supplied by the description of recent economic behavior in the preceding chapter, we now return to the questions posed at the end of Chapter III.

To what extent would the experience of individual firms that have met annual-wage commitments carry over into a generalized adoption of the annual-wage guarantee? What effects may be expected on business policy and on the structure of our economy if industries generally are pledged to guarantee an annual wage?

The timeliness of exploring the question in terms of industry-wide application does not arise solely from the form in which the issue was raised before the National War Labor Board in the CIO Steelworkers' brief, nor even from the specific instances of other large industrial unions, like the United Packinghouse Workers and the United Automobile Workers, including the annual wage in their postwar collective-bargaining demands. The very growth of the industrial union to its present stature has impelled the formulation of collective bargaining policies by labor on an industry-wide front. A current round of negotiations may start in the automobile industry with the Chrysler Company; or in the packinghouse field with Cudahy Company; or in steel with the United States Steel Corporation. But these key companies are selected for strategic convenience, in setting the pattern of negotiations for the industry. Once the pattern has

been set with a representative firm, it is to be expected that the model will be followed in negotiations with the other companies of the industry.

The action of President Truman in the steel strike in February 1946, proposing a general wage increase of 18½ cents per hour for steel workers with an ensuing increase of \$5.00 per ton in the price of steel, was official recognition at the highest level that collective bargaining decisions in key industries will inevitably cut across the whole of the industry and will influence the actions of sister industries.

From the management standpoint, it may likewise be assumed that no representative member of an industry is apt to agree to any employment or wage guarantee that puts an appreciable burden upon its overhead if competitors are to be exempt from similar obligations. It seems inevitable that companies making substantial concessions in the way of an annual wage in union negotiations will expect the same concessions to apply generally.

To these tendencies toward common treatment in management-union negotiations may be added a third factor tending to enlarge the sphere of influence. A firm, or even an industry, is not the arbiter of its own destiny as regards profits and deficits. Decisive impacts upon a given business are made by suppliers and by customers. Firms and industries that are highly sensitive to changes in consumer demands or in the supply and price of the raw materials with which they work must view their own capacity to offer guarantees in relation to the guarantees that can be made to them—guarantees of continuing orders, of freedom from stoppages in labor or materials, of stability in gross receipts and profits.

Bearing these factors in mind, we may logically consider the implications of industry-wide guarantees in the

following order. First, some thought will be given to the new economic framework that may be expected to develop between the management group and the labor group, if they are joined in an agreement for the guarantee of annual wages to the employees of the industry. We may next proceed to speculate on how the business policy of a firm or industry may be adjusted to implement the annual-wage agreement. The cumulative effect of these company policies in modifying the structure of our economy will then be visualized. Since far-reaching adjustments suggest themselves as necessary to support the stabilization of production, employment, and consumption, which is contemplated with widespread wage guarantees, the entry of the government in a supporting role must therefore be expected to figure prominently in any general plan. When these possibilities have been reviewed, we shall be ready for a recapitulation of the factors entering into a judgment of the guaranteed annual wage as a means to economic security.

## CHAPTER V

### THE MANAGEMENT-LABOR RELATIONSHIP

What new factors of mutual responsibility and administrative control may be expected to emerge in the event that industry-wide agreements are made for the guarantee of an annual wage?

We have no adequate precedent for the operation of an annual-wage plan covering the bulk employment of an industry, or even a major fraction thereof. The Cleveland plan could be cited as representing concerted action of an association of employers with the International Ladies Garment Workers Union. But the area of jurisdiction was limited; and with the rest of the industry competing without guarantees, the Cleveland plan resulted in an exodus of firms to other areas. This contributed to the abandonment of the experiment. There is no precedent for our purpose in the master annual-wage agreements made by unions in certain highly skilled crafts, exclusively for their membership, regardless of the plants or firms in which the members were located. Those cases involve only a fraction of all plant personnel; and there is often competition among employers to hold such basic-crew employees. Hence the situation they create is hardly analogous to the problem of guaranteeing pay rolls for employees in general. Likewise, the plans initiated by individual packers, distributors, or manufacturers are individual programs, which are not related to parallel competitive activity by the other members of the industry.

Some attention needs to be given, therefore, to the special considerations that emerge in the management-labor relationship when the employment pattern and the competitive conditions of an entire industry under guarantee are to be visualized. Among the problems that will take on enlarged significance are the comprehensiveness of the coverage, the rigidity of the guarantees, the authority for modification, the differentials among firms and labor locals, the mobility of the guaranteed working force, and the general issue of concerted action by competing firms and labor groups.

#### COMPREHENSIVENESS OF THE COVERAGE

Under an annual-wage plan offered independently by the single firm, the risks and advantages of the commitment were typically for the management to determine in the first instance and usually for the management to modify as changing business conditions dictated. Subsequent unionization of the plant might give added formality to the commitment, but the terms remained essentially those construed by the management as feasible for the protection of all concerned. Mutual interest was focused on the company as the common source of income for employer and employees. The attitude or reaction of competing firms was not a determining influence. The effect of the labor policy of the company on general employment did not need to enter into the calculations.

As to the annual-wage agreements signed with craft unions which represent special skills, they have had little bearing on policies respecting the whole labor force. Since they accounted for a negligible fraction of the total pay roll in their respective plants, the craft members could frankly bargain for all the traffic would bear; their pay constituted no threat to the financial

position of the company or to the general employment situation.

When the initiative is assumed by a national labor organization on behalf of the bulk of the workers in the industry, however, the objectives must be broadened. Complete autonomy for the individual company, or independent pursuit of immediate self-interest on the part of labor subgroups, must yield ground to the consideration of the factors governing employment over the whole industry. Guarantees for industry-wide application must embrace the less efficient and less profitable companies, as well as those that are more efficient or more fortunately situated.

The national labor organization seeking an annual wage for the industry will have in mind the terms whereby maximum security for the bulk of the membership may be achieved, unless the old guard is in control and makes seniority the overriding consideration. If the union is responsible for half a million members, it can ill afford to make agreements that will leave 100,000 outside the blanket of guarantees. On the other hand, coverage of the total membership under annual guarantees could involve spreading the work so thin that little would be accomplished in the way of full-time wages. Hence, in striving for the most favorable terms for the largest percentage of its membership, the union would need to have an idea of the total production that industry might be expected to achieve. That estimate of the total would have to be converted into the equivalent man-hours of employment that the industry could support. Only as it made such a forecast of the total production of the industry, could the union know how far its demands could reasonably be pushed for the maximum protection of its rank and file.

On the side of the firms joining in an annual-wage agreement, the individual management would consider not only what it expected to produce during the life of the agreement, it would also be interested in the total to which its competitors had committed themselves. On a standard product, the volume of production contemplated for the whole industry must influence the size of the share that any particular firm can expect to obtain. The problem of the share of each firm in the product of the industry may not be acute when business activity is high. But if wages must be kept up when orders slacken, each firm will naturally insist that in the competition for orders to justify the pay roll it will not have to carry a more burdensome annual-wage commitment than its competitors.

We should therefore expect that if a substantial portion of the industry is brought simultaneously under an annual-wage agreement, that portion of the industry will insist that the balance of the industry be likewise brought under such an agreement. Otherwise those firms which are free from the obligations imposed by agreement would be in a better position to undercut the firms that have to meet the cost of reserving a wage fund against business slack.<sup>1</sup>

#### DURATION OF THE GUARANTEE

For the industries whose problems are cyclical rather than seasonal, the question is how far ahead any major pay-roll supplementation may be guaranteed. Fore-

<sup>1</sup> The issues of stabilized purchasing power and increased efficiency could be raised at this point. If one believed that the effect of general guarantees would be to keep up purchasing power and increased efficiency, he would naturally minimize the costs involved in preparing for unemployed workers. This question of the impact of the annual wage on the economy will be taken up in Chap. 7 rather than interposed in the present chapter.

casting a business cycle is almost as baffling an assignment as controlling it. Yet it is the outlook on which industry representatives for labor and management would have to reach some common ground before the term of an annual-wage agreement could be established for the industry.

The most reasonable expectation is that management and labor would fail to agree upon a cyclical forecast to be made the basis of an agreement. They would therefore, as a practical matter, have to limit the term of the agreement arbitrarily. If the term should be one year, as now prevails in annual-wage agreements, that would represent very little additional protection or sense of accomplishment, from the union standpoint. Moreover, it could be disastrous if, just before a yearly contract ran out, the employers were to get together in demanding a drastic cut in the number of workers to be covered under the succeeding agreement.

We should visualize, therefore, that the labor organization would try to forestall that contingency by seeking, for example, to control the rate of discharge, or to obtain a minimum layoff period, with compensation beyond the term of the agreement. It might turn to a device similar to the extension provision incorporated in a recent annual-wage agreement between union and management for a meatpacking plant.<sup>2</sup> Under that contract the life of the agreement continues until a request for a change is demanded by either side—on 30 days' notice by the union or 60 days' notice by the management. Whenever the agreement is thus canceled, the guarantee continues for a period of 52 weeks beyond the termination date. How long or how rigid a layoff notice

<sup>2</sup> See contract between the Dallas plant of Geo. A. Hormel & Co. and United Packinghouse Workers of America, CIO Local No. 316, made Oct. 22, 1945.

device is feasible for a cyclical industry would have to be determined of course by the contracting parties in the given industry. But in any event, the union or unions representing the industry would require a meeting of minds with management representatives on the general pattern the industry could risk.

#### RECONCILING INDUSTRY DIFFERENTIALS

It need not be assumed that the agreements with all firms in the industry would remain uniform. It would not seem unrealistic to assume that the union would at first attempt to establish a minimum base of guaranteed employment for general acceptance, just as it has established basic wage rates. One could conceive, for example, that the majority of the firms in an established industry might be persuaded to accept a coverage like that made by the CIO with the Wildman Manufacturing Co.,<sup>3</sup> in the first annual-wage agreement after the steel case before the National War Labor Board. That particular agreement provided a guarantee for one year of 1,200 hours to all employees with five years of seniority. It is conceivable that a modest guarantee of hours of that sort could be extended, in some industries, to lower seniority limits. The willingness to go beyond the minimum point might then become a matter of negotiation with individual companies. Broader guarantee terms would be bartered against incentive provisions, high production standards, health insurance, paid vacations, antistrike pledges, wage adjustments, modification of seniority rates, and increased mobility from job to job, to mention only a few of the bargaining points that may enter into the given situation.

<sup>3</sup> See agreement between United Steelworkers of America, Local No. 2977, and The Wildman Manufacturing Co., July 1, 1946 (Norristown, Pa.)

The industry-wide union has a different problem from the craft union in striving for the best terms for the workers concerned. In the case of the highly skilled crafts in old-line unions, the problem is comparatively simple. It has been possible for such special craft groups to make agreements for 52 weeks of full-time wages in a number of plants. Such workers have a negligible effect on the stabilization of total employment in the plant or industry. The situation is illustrated by the case of the Bellman Brook Bleachery Co., where only 11 such highly skilled operatives were under agreement in a plant of 500 workers. In manufacturing generally, the Bureau of Labor Statistics found (in 1945) 10 annual-wage agreements covering an aggregate of 75 skilled workers spread over 23 plants which were under unconditional annual-wage agreements. In nonmanufacturing, the BLS estimated that there were about 2,400 retail establishments in which an average of four persons had annual-wage agreements. These basic-crew people consist largely of tailors and alteration men, dyers, salesmen, and sales supervisors.<sup>4</sup> But this all-or-nothing basis hardly applies where the entire labor force of a plant is involved and the problem of fringe employees is almost always present.

On the record of the limited annual-wage agreements with industrial unions since 1944, it may be expected that a start will be made on modest terms wherever opportunity develops. Any terms so obtained may become the base from which the union works toward higher ground for its membership, both as to numbers involved and terms of guarantee.

<sup>4</sup> "Guaranteed Employment and Annual Wage Provisions in Union Agreements," *Monthly Labor Review*, April 1945, p. 721.

## CONCERTED ACTION AND CENTRAL RESPONSIBILITY

Whatever these differentials may be, the fact remains that when an industry is placed substantially under a guaranteed annual wage, collective machinery must be developed to keep watch over the fate of employment in the industry as a whole. That machinery must be prepared to make adjustments of an over-all character to meet shifts in the business cycle, the competition of outside products with those produced in the industry, or the effects of technological changes. The greater the percentage of the labor force of the industry which is covered by the guarantee, the more obvious becomes the responsibility of the union to see that total employment is not adversely affected because of the artificial element introduced by the guarantee to stabilize employment and pay rolls.

There is no current evidence that the labor organizations which have demanded industry-wide guarantees have charted a course for the administration of an industry-wide annual-wage agreement. Some of the labor leaders have indicated that they would expect the machinery of bargaining, under a drive for extending annual-wage agreements, to remain pretty much as at present. That is to say, they would negotiate with one firm at a time, obtaining in each case the best terms that may be bargained out. That approach is applicable to the problem so long as the agreements are with small and relatively isolated individual firms or with those that cater to specific territories or to restricted special markets of the industry.<sup>5</sup> Once we get into an area of

<sup>5</sup> Such detachment from the general picture may be illustrated by the examples of two firms now under limited annual-wage agreements, which have responded to inquiries put by the author. One, a producer of machinery for the knitting trades, says: "In our industry we cannot see where

business where the competitors produce a similar product (like rubber tires, automobiles, steel, or standard textile fabrics), having to compete for the same markets, anything like an industry-wide agreement must involve a common agreement on the terms and the assumption of a relatively uniform overhead in the payroll cost.

*Transfers.* The union under a general annual-wage agreement would have a vital interest in any industry changes that required the shifting of employees from their regular jobs to others in which they could be used, especially if the work fell under another union jurisdiction. By the same token, it may have a vital stake in determining whether the annual-wage guarantee covers the employee only so long as he is attached to the guaranteeing company; or whether his right to the guarantee is an acquired personal right which must be recognized by the next employer. That this possibility is in the minds of at least a few economists connected with the labor movement, is reflected in their contemplation of the possibility of creating guarantee reserves as a pool

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having a whole industry working under a uniform annual wage or guarantee of this type would make it more (or less) successful, as we make special machinery, and what one manufacturer would do in the way of a wage scale would have very little effect on the others. We can see, however, where in a strictly competitive industry it would be almost necessary to have all the industry in to make the plan successful."

Another, operating in the mail order field from a single center, pointed out that "the mail order houses [in our city] draw their labor from definite neighborhoods or city areas. Consequently, action of this kind [guaranteed wage] by one house has little or no effect on the labor situation at another house."

The executive of one firm in the automotive accessories industry, which has abandoned its company plan, offered the following viewpoint, alleging a declining feasibility of independent company action: "Another condition which is quite different today is labor's mood. Our plan required team-work of the highest order. It was not all one-sided. The men agreed to do something themselves for this effort, and it worked. In those days men appreciated a good job, whereas today many of them expect it or demand it and such things as loyalty, have gone out the window."

against which an employee may be entitled to draw just as he would draw from the employment insurance fund even though he has changed employers.<sup>6</sup>

It makes little difference ultimately whether the local union officials actually sign the agreement with a single firm, or whether a group of employers sign a joint agreement with representatives of the national union on behalf of the union local. In either event, the awareness of the obligations imposed upon the industry must lead to some machinery for the administration and guidance of the flow of man power in the industry. The problems of adjustment of differentials, of co-operation by the managements of the industry, all point to the necessity of some umpire or manager overseeing the whole program. Eventually, the union must become no less sensitive than are the managements to the problems of reconciling individual, local, and sub-group ambitions with the goal of optimum employment for the industries in general.

*Legal sanctions.* Management might also be confronted with a legal problem, as it participates in a general program to implement the annual-wage guarantee. The exchange of information designed originally to determine the base for the guarantees is a natural step toward understandings among the companies involved for stabilization of output, protection of the price structure, and other adjuncts of a common employment policy. In undertaking such joint efforts toward a stabilization program, they become open to the charge of

<sup>6</sup> The question of pooling reserve funds or depositing a percentage of pay roll with a central fund for employee protection, is likely to come up in connection with industry-wide guarantees when, as was the case with the clothing industry, the financial strength of many of the employers is questionable. See Bryce M. Stewart, *Unemployment Benefits in the United States* (1930), p. 378.

restraint of trade under the antitrust laws. It is conceivable, therefore, that modification of the federal legislation would be required to give the green light to joint commitment of competitors to a general program of annual-wage guarantees.

#### SUMMARY

The issues raised in this chapter point to the need of devising administrative machinery whereby management and labor could be brought and kept in line if an industry-wide program of guaranteed annual pay rolls were adopted. The implementation of annual-wage agreements between the labor and management representatives of an industry would involve, among other measures, the forecasting of aggregate output and employment requirements; the determination of the point at which guaranteed tenure of employment can begin; the terms of the guarantee to be taken as standard; the adjustment of conditions of recruitment, employment, wages, and prices to the assumption of the pay-roll overhead. Unless the annual-wage commitments are to be a mere gesture of painless promises, some of these questions should be threshed out and met in advance. There are new risks and responsibilities in the venture, to be shared by labor and management.

As the annual-wage agreement stakes out for the working force a more definitive claim on the resources of the business, it inevitably increases the dependence of the workers upon the success of the measures taken to make the guarantees tenable. The existence of an annual-wage agreement will focus the emphasis on economical labor utilization as a key to the production program of the business. Moreover, the destiny of the employees and management in each firm may be decisively

influenced by the competitive practices which become prevalent in the efforts to achieve the full use of the guaranteed working force. The resultant impact on total employment in the industry would have to become a basic consideration in the labor policy of any union which represented the bulk of the employees in an industry.

From these preliminary issues bearing on the management-labor relationship under industry-wide guarantees, we now proceed to consideration of economic forces set in motion by annual-wage commitments. In the next chapter, we shall consider their impact on company and industry policy.

## CHAPTER VI

### IMPACT ON BUSINESS POLICY

The impact of the annual wage upon business policy would stem from the assumption by each participating firm in the industry of a more definite liability for a payroll overhead. That overhead must be matched by effective use of the total man-hours for which the agreement calls, or be reflected in costs and prices. As we explore the implications of that liability, some of the logical effects on business policy will appear.

#### GUARANTEED WAGE BILL AS OVERHEAD

For many business units already providing regular pay rolls in fact if not under formal agreement, the guaranteed annual wage may seem an academic issue. Our main concern in this chapter is not with business in that position. It is rather with that broad span of industry which employs labor on an hourly or weekly basis and has heretofore managed the wage bill as a variable function of the volume of output. We are considering primarily the industries in which organized labor has made an issue of annual wages, because employment has been subject to fluctuation—especially those sensitive to cyclical fluctuations of varying length and intensity. We shall try to trace the potential effect on business policy of an annual-wage agreement between a labor union and management under which the company has assumed the obligation to meet substantially a full-time pay roll over the year or over the term of the contract, whether or not the labor is fully employed.

So long as we were dealing with firms which had arrived independently at an annual-wage commitment of their own choosing, we had before us a select sample. The special character of that group has been revealed in the very fact that the firms heretofore volunteering a guarantee have constituted so small a minority of the business population. They had, basically, a confidence in the stability of the demand for their product. They had taken the measure of its irregularities and arrived at the margin of safety to be observed. The guarantee was not regarded as a net addition to labor cost, but as part of a program for increasing productivity by way of improved employee co-operation. The successful voluntary guarantors were committing themselves to recognize formally what they had accomplished before they made the guarantees: first, paying regular wages to those whose employment they required; second, reducing the percentage of extra hands by refinements in production and marketing policy. In most cases the painlessness of the voluntary pledge was ensured to the management by the provision that the commitment could be modified if pertinent business conditions materially changed.

In the drive toward an industry-wide agreement for an annual wage, the immediate objective is to obtain for the worker an advantage that the labor force has not previously enjoyed. The protection sought is not limited to, nor primarily for, the basic crews which get steady work and wages in any event. It is sought on behalf of the workers who have reason to fear for their jobs; those whom the firm would ordinarily be expected to lay off in the event that the demand for their labor receded from optimum or profitable levels. To that end, the industry-wide agreement is an effort to obligate the industry to carry the full-time wage bill as overhead—

like rent, or maintenance, or interest on outstanding bonds—instead of treating it as a variable correlated with the changing requirements for labor. An additional liability is created for industry to assume, whatever the means that may be found to meet it. Thus, while the independent voluntary guarantee represented formal confirmation of a situation already under control, the industry-wide guarantee sets up for each firm a target of payments to be met as a contractual obligation.

Under the impetus of the additional obligations undertaken in the guarantee, it must be presumed that each firm will embark upon a program designed to minimize the carrying of unproductive labor; to build up surplus resources in good times so that pay rolls may be met in periods of underemployment; and, in cases where these efforts prove inadequate, to seek other means of relief. These goals suggest the measures whereby the additional obligations involved in an annual-wage guarantee could logically be met, including:

1. Regularization of production—better utilization of the labor force and cultivation of a market for year-round production.
2. Price increases to absorb additional costs incurred in payments to employees not supplied with productive work, or in marginal production undertaken because the labor is available and must be compensated in any event.
3. Withdrawals from profits, surplus, or special reserves. (There may also be public contributions to regular pay rolls such as emergency government orders, subsidies, or tax relief.)

Let us consider in turn the implications of each of the above as they might work out in the formulation of appropriate business policy.

**REGULARIZATION OF PRODUCTION**

Managements interested in wage stabilization have consistently approached the problem from the question, "Can we produce and turn over our product on a schedule that will sustain regular employment and pay rolls?"

It has not been necessary, in order to sustain regular pay rolls, to have the perfect situation where there is uniform flow of orders, materials, and finished products from week to week, season to season, and year to year. Where the product is inherently stable, physically and market-wise, it has been produced in off seasons for sale at the appropriate time. Where demand is elastic, price concessions have been made to induce sales in slack periods. In general, where variations from week to week or from season to season are recurrent and predictable, there has been the possibility of averaging out pay checks on the basis of balancing the high- against the low-work periods. But the practical limits of the guarantee are set by the total expectation of orders and the output; the less predictable the expectations, the less chance that a firm would make an annual-wage commitment.

*The seasonal and cyclical problem distinguished.* The regularization of production to offset seasonal variations in supply and demand is a problem to which affected industries have given attention as a matter of course. We have the familiar cases of the automobile industry shifting the month of new models so as to attain a less irregular month-to-month pattern of production and sales. Equally familiar is the practice in the fur industry to force August sales through price concessions, extended terms, and free storage. The less soluble problems of these industries arise when a change in general business is superimposed upon their own seasonal cycle.

Under an annual-wage guarantee, the efforts to regularize output and market against seasonal variations may well be intensified. Competition for the off-season business or excessive production for stock to utilize the guaranteed labor might occasionally disturb the balance between aggregate supply and current demand for the product. But the recurrence of seasonal intervals would permit relatively quick readjustment, with feasible rectification in the new year of the mistakes in the previous one. It is not like the cumulative effect in cyclically sensitive industries, of several years of expansion with the peak not clearly in sight, followed by a recession of unpredictable length and intensity.

The drive for annual-wage agreements by the unions in basic heavy industry, cyclically sensitive, presents a more serious problem, fraught with a more pervasive and significant chain of consequences. For such industry, an annual-wage commitment will therefore involve more careful planning against extreme drains by the guarantee upon the resources of the firm or the industry. The effectiveness of this company planning may in turn be powerfully influenced by the actions of competitors or by external forces beyond the control of the given industry.

It may be assumed that in the initial negotiations for an annual wage, management would try to hold down the commitment to what it regards as a safe norm, just as the labor union is under pressure to obtain the maximum guarantees with maximum coverage. In order to be meaningful, the final agreement, as previously suggested, would involve something above what the management left to its own device might regard as clearly safe. Hence, once the guarantee is made, we may expect

measures to attain more stable production, in line with the fixed overhead of the pay roll, to come into play.

Obviously, any general line of reasoning on the potential effects of the wage guarantee needs to be scrutinized with reference to the peculiar problems of a given business. In highly competitive industries the individual firm may be driven by market pressure to continue its traditional production and selling policies regardless of the annual wage. In other lines the terms may be administered by the industry's leadership, and positive measures taken to meet the challenge of an annual-wage guarantee.

*Optimum production volume.* The guaranteed labor force becomes a norm. Orders up to the total capacity of the man power available under the guarantee would be promoted and welcomed. With orders to be filled beyond the regular man-hour capacity, the willingness to accept new business becomes related to the risks of additional commitments. If the employer has to take on new workers and they serve the required number of months for eligibility, then by the time the agreement expires, they must be included in a renewal of the guarantee. Regardless of the eligibility of particular individuals, it is to be expected that the number employed in a given year creates the obvious base from which to determine the number to come under guarantee during the ensuing year. Unless the employer expects the increased volume of business to last, he must hesitate to accept additional orders at the risk of having to carry the guarantee of a larger labor force for the ensuing period.

There are several alternatives to the dilemma presented. Rather than take on the contingent liability of new labor, the employer could fill his additional orders

by giving overtime work to his established force. Since the overtime adds to costs, management would have to weigh that extra cost against both the present and the contingent guarantee expense of recruiting additional help. To a limited extent, one might invoke the practice of crediting the overtime payments against the underemployment at other times in the contract period. If the prospect is—as in cyclical fluctuations—for an indeterminate future of underemployment, then the taking on of new help must be hedged with protective devices.

The method that labor would find most disturbing is to match the taking on of new workers with the issuance of a corresponding number of lay-off notices, the latter becoming operative as soon after the end of the guarantee period as the terms of the contract permit.

A stabilization-conscious management would wish to avoid both the extreme use of overtime and excessive liability for the guarantee of additional workers. In that event, the firm would be inclined, when the guaranteed labor is fully employed, to confine its production to the business which it could most profitably handle—with emphasis on higher prices, rather than increased volume, to create profits. It would hope to carry unfilled orders over into the later, presumably less active, period.

An obvious inducement favoring this last line of procedure is the fact that a full complement of workers will be available and on the pay roll during the recession from peak activity. Indeed, the competition is destined to reach its most aggressive stage when, during a recession, all firms in the industry are seeking to attract orders to match the fixed labor overhead. Theoretically, competition could get to the point where any price above irreducible fixed charges, cost of materials, and other unavoidable outlays that could cut into the pay-roll over-

head, would be preferable to compensating an idle force.

*Inventory building.* The increased emphasis on the full utilization of the working time of the guaranteed employees will obviously not be confined to current orders. It may be assumed that the problem of inventory building will receive re-examination in line with the desirability of maintaining the guaranteed labor force on an even flow of output.

Even without the inducement of a guaranteed annual wage, businessmen have followed the practice of making up stock in slack periods for disposal of the inventory when the demand is current. Books, furniture, jewelry, and other gift items are produced the year round for sales concentrated at the holiday seasons. When stocks go beyond current storage facilities, they are often consigned to the jobber or retailer without obligation for the proceeds on his part until the sales are made. So far as seasonal lines are concerned, therefore, the assumption of a wage guarantee may imply merely a little more of the same kind of effort.

It is where forecasting of sales over a longer period is involved that the advantages of inventory accumulation have been less clear. On the less durable items there is always the problem of deterioration, which an annual wage cannot solve except as it may stimulate further efforts to improve storage methods. An even more pervasive factor is the fear—especially on items where style specifications are involved—that the accumulated inventories will become obsolescent. On that score, any general efforts to build up inventories over a longer waiting period must be tied to efforts on the part of the industry as a whole toward standardization of product. The increased use of the labor force for inventory building must also lead to agreements for mutual protection,

to set a price floor, and minimize the dumping of distress stocks.

If, under an industry-wide guarantee, the firms in the industry simultaneously build up inventory to use guaranteed labor, accumulation would develop a pall on the market unless the demand was very sensitive to price changes. When the stage is reached at which the excessive stocks cannot be liquidated by reasonable price inducements, an idle period must ensue. Stocks must be cleared, whether or not there is a guarantee. Indeed, the temporary solution of delaying the layoffs, with the additional inventory building, carries with it the danger of a more precipitous decline in the number of workers, once the firm can relieve itself of its guarantee obligations.<sup>1</sup>

*Rounding the line.* An additional device which business may be expected to pursue in meeting the overhead of an annual wage is a rounding out of the line. This could take the form, in a diffused line, of dropping items that are seasonal or essentially of a novelty character, in order to eliminate fringes of the labor force on which year-round work cannot be sustained. In a line of limited range, it may take the opposite form of adding new products with which to offset the production lags in the basic line of the company.

Such infiltration of the market with extra lines has already been fairly common practice among distributors. The tendency of drug stores to go into additional lines illustrates the constant search for high-margin items whether or not they are within the traditional boundaries

<sup>1</sup> One may recall at this point the special efforts fostered by President Hoover to carry on production with resultant artificial increases of inventory, after the set-back in 1929. That experience has been noted as a factor in the development of the tendency in the thirties for hand-to-mouth buying and production.

of the business. With wage commitments as an added inducement, it must be expected that the efforts to round out the line will take on a new intensity.

This means that an era of cross-raiding may ensue unless we should assume that the additional obligation of the guarantees would stimulate new products and a broader market. There is no assurance that on balance it would add any more production for the raiding group than it took away from the raided group. The intensification of competition may have one of two results. Left to itself, the process may force prices down to the level at which a wider market would be reached, provided the demand is elastic. Equally likely, however, is the prospect that the areas suffering from the raids will seek, as they have done in the past, to set up protective defenses—sanctioned by special legislation where possible—to put restrictions on competitive inroads. In this effort, the management may be expected to have the co-operation of its labor group for mutual defense. If the protective measures prove successful against raiding of lines, they vitiate the value of the efforts to round out the line and maintain employment. The residual effect would be a body of restrictions to freeze the industry.

Assuming that there would be relatively free play of the measures to keep employment going, with extra lines and new processes if necessary, an accompanying requirement would be that the labor force should become increasingly versatile. It would need to turn its hand to whatever work could reasonably be made for justifying the pay rolls and keeping the firm above water. In the building trades, for example, the guarantee would seem incompatible with the prevailing strict classification of skills and of the rates that go with them.

### EFFECT ON PRICE POLICY

Passing reference has been made to price adjustment as incident to efforts toward dovetailing production policy with pay-roll obligations. Let us now examine somewhat more closely the implications of annual-wage guarantees for price behavior. One cannot be certain of any direct and unbroken line from the wage guarantee to price action. Intervening factors peculiar to a given industry will come to mind. The experience with some guarantee plans has been an improvement in labor relations, expressing itself in greater efficiency, higher productivity, and more flexible use of labor skills. In some industries, the direct labor cost is only a small fraction of the total cost of the product. Sometimes other factors, like style and quality of materials, may be the decisive elements in price determination.

The influence of price pressure could be minimized, of course, with limitations on the extent to which the employer would obligate himself for pay-roll maintenance. One could add other conditions to produce a negligible influence of the guarantees on prices. At the risk of being repetitive, we are considering the effects on business policy not in terms of the special favorable situations where the guarantee obligation would be a mere formality. We are dealing in terms which labor itself has proposed—namely that of the guarantee of substantial full-time pay to the bulk of the labor force, in industries where unpredictable fluctuations of employment have been of serious import to the workers. In other words, we are interested in how the guarantee which fixed a labor overhead beyond what the industry has habitually assumed would affect pricing policy.

Given a stabilized labor force as the goal, we have noted that the tendency would be for the volume of pro-

duction to be kept in line with the capacity of the established, guaranteed working force. When demand is pressing against the working capacity of the regular force, we should expect a natural tendency to hold business to the more profitable lines, rather than expand volume with new employees. Even where overtime payments were not credited against underemployment, and the overtime premium was an additional charge, the firm might still prefer that to the taking on of new employees who would later have to be guaranteed. The more rigid the guarantees the stronger would be the influence to hold down production and derive profits from a rise in prices.

This tendency to inflate prices rather than increase volume during periods of high demand would operate, apart from the possible general raising of price levels, to allow for payroll reserves against periods of lower production.

The guarantees would accentuate the higher price levels so long as the backlog of unfilled orders remained. If the product were in the nature of a durable good, for which the use could reasonably be delayed without loss of total demand, the effect might conceivably be to spread the orders over a longer period. But once the recession has set in, the market reaction promises to be much more extreme because of the availability of guaranteed labor which should be kept at work. One must expect the availability of that labor to intensify the selling efforts to pick up business. A cutthroat price competition is to be expected in such a setting.

The argument carries us to the conclusion that the fixed overhead created by the wage guarantees must widen the spread between high prices at peak levels and low prices in periods of depression.

This tendency toward increasing the spread of prices, like other phenomena to which the pressure of guarantees may give rise, seems destined to fall especially hard upon the marginal firm or the small firm that is in line for expansion. When its own prices are high, its desire to expand will be dampened by the fear of taking on additional obligations of future guarantees for new employees. It will also, as a purchaser, have to contend with the higher prices which suppliers may demand. At the bottom of the cycle, the fringe firms are the least likely to have the resources either to engage in a price war or to remain solvent by desisting from production because of low prices; while at the same time they are carrying an unproductive guaranteed pay roll. A prospect of this sort can hardly be expected to encourage investment in new and expanding business ventures.

#### COVERING THE COST OF GUARANTEES

We have assumed that the union agreement on annual wages will grant protection beyond the figure that management, left to itself, would deem perfectly safe to guarantee. That is to say, we are taking it for granted that management assumes the risk of supporting employees to an extent which may involve substantial outlays by the firm.

How much a given guarantee may cost in an industry that experiences unpredictable cyclical fluctuations is patently not subject to accurate measurement. The most that could be done would be to take a period of the history of the company and see how far short it came of full-time employment. That in itself would involve certain assumptions as to how many people would have been taken on during that period if their wages had been guaranteed, as against the practice of hiring and firing as work was available.

Such an attempt at estimating costs of guarantees was made for the preliminary report of the business advisory committee of the Office of War Mobilization and Reconversion, on the basis of the pay-roll experience in 42 firms. The period under analysis was the four-year span, 1937-41. From that analysis it was concluded that:

Even when the cost of out-of-pocket payments for idle time would have been 20 to 30 per cent of actual pay rolls over a period of years, including costs as high as 100 per cent or more in the extreme depression year, a combination of terms in a guarantee can be devised to reduce the costs to less than 6 per cent on the average, and yet provide a substantial measure of security for all or almost all employees of the establishment.<sup>2</sup>

Little is to be gained by burdening the point that the forty-two cases—mainly in consumer lines, selected for their willingness to be studied, in a period of rising trend for durables, with single plants serving as models for the study—provide a meager basis for measuring the costs of an annual wage operating across cyclically sensitive basic industries. The point for us to consider here is, that, whether the cost of the guarantees in any year actually turns out to be 5 per cent or 25 per cent of pay roll, it represents a risk which the firm must be prepared to meet out of its resources.

The methods used to meet the contingent liability may vary all the way from doing nothing about it until the pay-roll crisis develops, to the building up of reserves that are clearly earmarked for that purpose.

The firm that is least likely to build up the necessary reserves is the growing firm which must invest its profits in new capital equipment for expansion. A firm in that

<sup>2</sup> Murray W. Latimer, *Guaranteed Wages*, The Final Report to the Advisory Board, Office of War Mobilization & Reconversion, January 1947, p. VIII-74 (mimeo).

position must likewise take on new employees to support its business expansion. It would therefore enter a depression under the least favorable conditions. In the first place, the eligibility for guarantees, acquired by the workers during the period of business expansion, will constitute an inordinately high-wage overhead through the recession. Not having been able to set aside reserves to meet that overhead, it must either use up its cash, borrow against its general assets, or raise cash by the sale of some of its assets at an unfavorable time. The losses from the meeting of the wage bill would thus be compounded by the loss from liquidation of assets or the handicaps caused by the cramping of its cash position and limitation of its working capital.

The better-established firm may be expected to set aside regularly, as part of its wage bill, a given percentage of pay roll. These funds would presumably be invested in some form of security that could be readily liquidated. The general economic effects of the building up of such reserves will be considered in a later chapter dealing with the impact of the annual wage on the economy. For the moment we are concerned with the reserving of a fund against annual-wage guarantees as a phase of the business policy of the firm.

If the proceeds for this fund are treated currently as part of the wage bill, the amount must be reflected either as an addition to the price or as a deduction from the profit margin. Assuming that all firms in the industry are subject to the annual-wage agreement, it is quite possible for standards to develop on what constitutes a reasonable withholding for the given line to cover the risk of payments for underemployment. This generally established formula might then be translated into a

higher price level for the industry, much in the same way that a higher wage schedule after a round of collective bargaining agreements, will be reflected in higher prices. In that event, the firms carry on their competition from a new base, subject to variations from that base which may develop as a result of the competitive situation in which the firm or industry operates.<sup>3</sup> Were an industry in a position to make such a price increase, the incidence of the guarantee would be shifted to the customer. We would have in essence a business decision to increase the tax on the industry for unemployment compensation, to be absorbed by the users of the product.

Of course there is always the possibility—and it has been claimed by some voluntary guarantors—that increase in efficiency among a guaranteed labor force will catch up with the increased costs of the guarantee. To the extent that that proves true, it is a factor tending to mitigate the pressure for a general price increase as a necessary aftermath of wage guarantees. Concerning the promise of increased efficiency, what one cannot foresee is whether the stimulating and co-operative atmosphere pervading certain firms that have independently set up annual-wage schemes would carry over into the wider arena, where the workers of an industry get an annual wage through union bargaining, whether the management is for it or not.

If provision for the guarantee reserve funds cannot be shifted to the customer because of competition, and

<sup>3</sup> The necessity for an increased price may determine the feasibility of an annual wage. To take an extreme case: If an annual wage were spread across the coal industry, guaranteeing full-time, year-round employment to every miner, the resultant increase in the wage bill, if reflected in a price rise, would undoubtedly mean a vast substitution of gas or oil for coal.

if it cannot be offset by an increase in productivity, then it must come out of profits, surplus, or depreciation reserves. If the reserves must be a deduction from profits, the general effect in reducing the attraction for new investment will suggest itself. Here again, the most dampening effect is bound to be on the smaller firm, which needs its funds for capital expansion, and on the marginal firm, for which it may prove the last straw. (Perhaps the latter consideration is one of the reasons why, in a case like that of the garment trade, containing many firms in a precarious competitive position, the union hesitates to speed the entry of the industry into a general annual-wage agreement. It prefers to work from the approach of management improvements to render more stable employment feasible.)

The manner in which the firms build up backlogs for meeting pay-roll deficiencies has a bearing on the general flow of income in the economy—a subject discussed in the next chapter. From the standpoint of the business, the reserve for pay roll will represent a diversion of some of its funds from its own capital into more liquid form—whether in larger cash balances or high-grade bonds. This does not preclude the possibility for some industries to invest their reserves in those areas which are most likely to reinvest the fund in products of the given industry. Thus, the cement or brick industry might invest its reserves in municipal bonds issued by communities which plan to expend the proceeds on construction materials. Strong firms may, as has been done in the case of employee-savings funds, purchase a portfolio of their own securities as the reserve for pay-roll guarantees. But the net tendency would clearly be to slow up expansion of the business by the diversion to “safer” trust-fund channels.

**PROBLEM OF THE MARGINAL FIRM**

That the influence which the industry-wide guaranteed wage can exert on business policy will differ markedly from industry to industry and from firm to firm must be obvious. It has been noted that there are lines of business which, by virtue of their normal stability, already operate substantially on an annual-wage basis and need be only negligibly affected by formalization of the status quo. Even when we deal with industry that is sensitive to cyclical fluctuation and with firms that would have to make provision for the added costs of an annual wage, the ability to make stabilization measures effective will vary greatly.

In an industry of large, well-established firms, such as in automobiles, newsprint, basic steel, or cigarette manufacture, there is an informed awareness of the over-all problems of the industry which makes for a high degree of discipline. The cost factors are under standard accounting, profit margins are fairly well stabilized, aggregate volume of the industry is regularly reported, and price changes are orderly and relatively infrequent. The number of firms is small enough for a considerable interchange of ideas and basic data to take place. In these circumstances it may be presumed that while competition may be severe it will not be pursued without some regard for the well-being of the industry as a whole. The annual-wage guarantee would generate a pertinent program, with practices adjusted and reserves set up to meet recognized contingencies. In such an industry the more vexing problems are likely to arise concerning the aggregate of the labor force to be guaranteed and the mobility of workers, as management makes changes in the organization of production or hastens technological changes to hold down pay rolls as part

of the effort to cope with the annual wage guarantee.

A quite different prospect is in store for the lines of business like apparel and some of the fabricated specialties in which the pattern is one of many small firms competing for business with a sizable fraction of them on the marginal fringe. There the general tendency is to take on new business as it comes, whether in prosperity or depression, with less concern about long-run effects. Profits are likely to be put into expansion, with little regard for the building up of reserves. With a general fall in demand, the necessity of finding orders to support pay rolls would aggravate the bent of such small business toward cutthroat competition for the limited orders available. As prices sink below the break-even point, bankruptcies are likely to multiply as a way to get out from under the annual-wage obligation.

In lines where small businesses predominate, the difficulties of bringing individual firms together under a common policy have usually proved insurmountable. But even such diffused business groups may reach a point where the disinclination to get together will give way to a drive for mutual protection. That has happened in anti-chain store activity, retail price maintenance legislation, and the generalized campaign for more rigid industry rules under NRA. The coal industry, despite the traditional independence of its operators, did not prove immune to standardizing measures under the Guffey Act and the industry-wide agreements with the United Mine Workers.

Thus, it is in those areas of business which best exemplify independent competitive enterprise that we find the greatest likelihood of extremes. If the small firms are true to form, they will give way to unrestricted competition when under pressure to meet the fixed over-

heads of guaranteed pay rolls, and then get behind a campaign for uniformity, with corresponding loss of independence of action for the individual firms. The implicit recognition of this possibility may account for the fact that in industries consisting primarily of small business units, little has been said about the annual wage. The gravest danger in any general adoption of the annual wage appears to be for small firms in an industry where big businesses predominate. It is there that the most aggressive efforts would seem to be in order, for the smallest units to claim immunity from hampering annual-wage commitments.

If the drive for the annual wage should extend to the weaker areas of small business, or if recession should threaten large-scale layoffs at the end of the guaranteed period, there is always the possibility of business or labor turning to government action for relief. Such relief may take the form of subsidies to permit production for general welfare purposes or the institution of special spending projects by government to feed pay-roll-supporting orders into the business stream. That possibility, however, raises problems affecting the economy as a whole rather than business policy for individual firms or industrial groups. They can better be dealt with, therefore, in the ensuing chapter concerned with the more general economic implications.

### SUMMARY

It is now time to bring together some generalizations which have emerged from the argument and conjecture of this chapter. Guarantee of the annual wage on an industry-wide scale must make the firm and the industry conscious of the fixed overhead to be met in the labor bill. The awareness of this fact will focus attention on

measures aimed at the stabilization of production. First, every effort will be made to bring production up to the full utilization of the guarantee force. When that level has been reached, the temptation to go on to higher ground must wrestle with the knowledge that every new worker taken on to meet current peak demand is a potential liability, to be carried under guarantee after the need for that labor no longer exists. With that prospect in view, business prudence may become the better part of valor and the urge to expansion be kept in leash.

On the downward phase of business activity, the existence of a fixed labor force will intensify the efforts of management to keep that labor force busy; it will seek, with whatever inducements can be invented, price-wise or otherwise, to keep orders flowing. Even when orders are not in the offing, the need to justify the guaranteed pay roll will turn the attention of the business to inventory building.

The applicability of such measures in an industry which has mainly a seasonal cycle to contend with is clear. The question is how far inventory building may be pursued as a production stabilizing measure over a cyclical period, considering the unpredictability of cyclical behavior. A tendency to prolongation of production may be expected, however, since few firms realize that a downturn has begun until it is well under way.

When business has become aware of the downturn, it may be expected to make every effort to get out from under the guarantee obligation as soon as possible. Hence, more precipitate discharges of the working force, or at the very least a struggle over this question, may ensue because of the previous delay in releasing workers.

The exaggerated concern over the fixed wage bill, especially applicable to cyclical industry, may be over-

come to some extent if reserves have been built up in prosperity that are earmarked for pay-roll payments in depression. This device may be used to the best advantage by firms that are established well enough to be able to spare funds for reserves. The less well-entrenched firm may have to meet the unproductive pay roll through borrowings or even forced sales of its assets.

The simultaneous efforts of all firms under a guarantee to find ways and means of keeping the labor productively engaged—whether through the building of inventory or discovery of new lines, or the offer of additional inducements to buyers—all add up to an intensification of competition, with the threat of cutthroat trade practices and the insolvency of marginal firms. Whether this tendency to cutthroat competition will be allowed to carry on to widespread disaster may depend on how well the industry is organized. It is conceivable that in some industries the management, with the help of workers, will seek to set up a discipline over the industry to protect prices and to limit inventory accumulation.

It is difficult to believe that a middle ground of live and let live can be easily attained, under the stresses and strains of meeting industry-wide guarantees when business declines. More probably industries will go to one extreme or the other. Either competition will progress to the precipice where the marginal firms lose their foothold, or protective restrictions will be instituted to introduce still greater rigidity into the business structure.

The varying behavior characteristics of the different commodity lines indicate that the boundaries of reasonableness in competition and the demand for protective measures will vary considerably from industry to industry. On balance, one would suspect that the trend of the

past generation would be accentuated under industry-wide guarantees, in the direction of greater controls and uniformities with both management and labor, and that protective measures—especially price floors—will get the upper hand, with resulting greater rigidity in business practices to match the rigidity of the wage bill.

Up to this point the analysis of business policy has been made without fully taking into consideration the possible effects of the wage guarantees in regularizing the flow of income and the possibility of minimizing the fluctuations in the business cycle. We have yet to examine the validity of that version of the purchasing power theory which argues that the guarantee of incomes to the bulk of the industrial labor force offers insurance of continuing high employment, thus minimizing the problems of company policy with which the present chapter has concerned itself. It is to these related influences of a guaranteed annual wage, upon the structure and behavior of the over-all economy, that the following chapter will turn its attention.

## CHAPTER VII

### IMPACT ON THE ECONOMIC STRUCTURE

The recurring business crises in our economic system have impelled the widespread demand for an annual wage. Now we have to see what demands the spreading of guarantees of an annual wage may make on the economic system.

One's thinking about the desirability of an annual wage takes off from the premise that it would be a boon to the worker and his family if they had assurance of a full pay check each week. But while the worker sees his security in the pay envelope, guaranteed payments can be meaningful only as productive employment continues and gives rise to adequate goods and services that are purchasable with the pay checks. Attention has therefore been attracted by the efforts of individual firms to regularize production so as to make good the promise of a valid, regular pay check. As the previous chapter has indicated, what the individual firm can do about meeting a guarantee and regularizing its employment is conditioned by corresponding efforts of its competitors. It was also noted that the separate actions of individual firms to achieve their own stabilization can produce a chain of reactions affecting supply and demand, price practices, hiring and layoff practices, and other aspects of business policy.

As the area of analysis spreads out, it becomes increasingly apparent that the ability of any firm or industry to make good an annual wage is dependent not only on the behavior of competition within the industry, but on the impact of outside forces. The brief review of

industrial fluctuation presented in Chapter IV revealed the marked variations in the history of rise and decline among industries. It also pointed up the varying sensitivity of industries to changes in the business scene. New products and technologies can spread or reduce price differentials, shifting the demand to or from particular goods and services. There may be general swings in the volume and flow of incomes, in the use of savings, and the outlays for investment. These changes may be functions of fiscal policy, tariffs, international agreements, or more illusive psychological factors. The company or industry is not the final arbiter of its ability to stabilize wages.

At the same time, however, the efforts of any one industry or ring of industries to meet guarantees as an overhead will affect other parts of the economy—supply-wise, price-wise, investment-wise. Will the effects jibe with the intentions? The zealous efforts of individuals to escape a fire do not necessarily improve the chance of rescue for all who are involved. So when our concern is not alone for the guaranteed worker, but for the welfare of the population of workers, it remains to be determined whether the cumulative effort of companies and industries to stabilize for purposes of meeting wage guarantees will add up to a composite of more stable business activity.

The concept of stability must itself be clarified in terms of the level at which stability is sought. The very goal of stabilizing production and employment would take an ironic turn if it meant that each firm were to arrive at a stage at which it could say: "We have now managed to whittle away our unstable lines and are able to schedule our production so that all workers whom we have retained on our pay roll can be guaranteed a regu-

lar wage." That could be an achievement of temporary stability for the individual firm at a sacrifice of national product. For millions of workers outside the charmed circle of protected regular employees, it might mean a closing of the former gates of entry to a job.

Obviously, such stabilization at a lowered level of national production—of total real income—is not what labor needs, or what the advocates of the annual wage intend. The only objective of an annual wage that is valid for the economy—the one for which it should be tested—is a high level of productive employment, with maximum security of *opportunity* to contribute to and share in the whole.

In dealing with the question of how the guarantees would react on the business structure, there is no model to observe of an industry with a guaranteed labor force. Taking the known facts, existing situations, and behavior patterns as a base, we must let them lead us into the reasonable assumptions as to how they would work out under the influence of generalized guaranteed commitments. All the measures and countermeasures that could ensue from the succession of pressures that annual-wage commitments may exert cannot be foreseen. We should be able, however, to indicate the direction in which the impact of the guarantees may cause the economy to move; thus, at least, each may determine for himself whether the probable developments are in line with the desired means and ends.

#### THE LEVERAGE OF PURCHASING POWER

One assumption about the impact of the annual wage on the economy has already been made by those whose faith in the annual wage is strong; it will serve as a point of departure for our analysis. Referred to in earlier

chapters as a mass-purchasing-power theory, the assumption may be repeated in the following form: the larger part of the national income is distributed in wages and salaries. Wages converted into the demand for goods and services sustain the level of employment as factories and distributors respond to the wants of consumers. Consumer demand in turn generates the demand for investment in the raw materials and industrial equipment that give employment to the workers in heavy industries and producers' goods. When, on the other hand, men are laid off and pay checks cease, the flow of consumer demand is slowed down, and other workers are made idle; even those who could continue their expenditures are afraid to risk their savings in new productive investment or use their current funds for purposes other than what they regard as current necessities. Were pay rolls assured, there would be no need for consumers or investors to fear the future. Purchases would be made by the masses for houses, automobiles, and other durable goods, instead of being deferred until they can no longer be postponed; investments would be made more freely for replacements and improvements to meet assured demand. The total level of employment would be maintained because there would be no slackening of mass purchasing power to fear. The distress of the wide fluctuations between prosperity and depression periods would not need to be suffered.

Reduced to its essence, this purchasing-power thesis is that full-time pay rolls for the wage earners would mean a fuller utilization of our resources in productive employment and as a consequence the maintenance of a high national real income in which the individual worker's share would be secure.

In testing this thesis, the first thing to determine is, how large the wage bill looms in consumer demand, and

how large consumer demand looms in the total of employment. It is necessary to see whether the guarantee of the demand for consumer goods will serve to ensure employment in producers' goods and other nonconsumer areas that create employment. Another question is whether there are any factors other than total wages and consumer expenditures that determine the stability of employment, in consumer goods as well as other lines of industry.

Finally, it is important to ascertain whether the net result of the generalized guarantees would be to increase the stability and the volume of total employment. We shall be interested both in seasonal and in cyclical stability; but our interest will be concentrated on the cyclically sensitive area where the gravest insecurity of employment is to be found.

While pay rolls and total business activity in general react sympathetically upon each other, it should be recognized that this net effect can be a resultant of offsetting deviations in *both* directions, by *individual* industries, from the average trend. The decline of investment in an established field may accompany the rise in a new one. Highway trucking may go up while railroading goes down. A trend toward orange juice vitamins, and investment in sports equipment, may be accompanied by a decline in the consumption of bread or textiles.

Wages do not guarantee the stability of consumption preferences, especially if additional opportunities for choosing develop. The range of choice by way of new investments is most likely to be enlarged when business activity is high. New products may crowd out old ones; a few big purchases may crowd out many little ones. People employed on the neglected lines don't necessarily fit into new employment opportunities that have opened up.

Whether a more satisfactory general balance could be achieved by fixing the pay rolls of specific firms and industries is still to be considered. The wage bill and the consumer expenditures which it generates, represent powerful leverage; but does that leverage swing all parts of the economy? It takes investors and foreign traders as well as domestic consumers to provide high employment. Stability of consumption may keep up replacements of used machinery. How will it affect orders for new equipment and new construction over and above replacement requirements? Orders for new machine tools may in themselves be the signal for shifts in demand and employment that may spell the rise of a new industry at the price of decline for an already-established industry and its employees.

Our exploration of these factors and their amenability to the guarantee of annual wages will begin with a look at the wage bill and its place in the total demand.

#### THE WAGE BILL AND TOTAL DEMAND

The wages and salaries of employees in private industry normally account for more than half of all income payments to individuals. In a fairly typical prewar year like 1939, the distribution among the various types of income received by individuals was roughly as follows:

|  | Millions | Percentage |
|--|----------|------------|
| Wages and salaries:                          |          |            |
| Private industry                             | \$37,519 | 53.0       |
| Public                                       | 8,139    | 11.5       |
| Public assistance                            | 1,071    | 1.5        |
| Entrepreneurial income, rents, and royalties | 13,441   | 19.0       |
| Dividends and interest                       | 8,891    | 12.5       |
| Other income payments                        | 1,768    | 2.5        |
|  | <hr/>    | <hr/>      |
|  | \$70,829 | 100.0      |
|  | <hr/>    | <hr/>      |

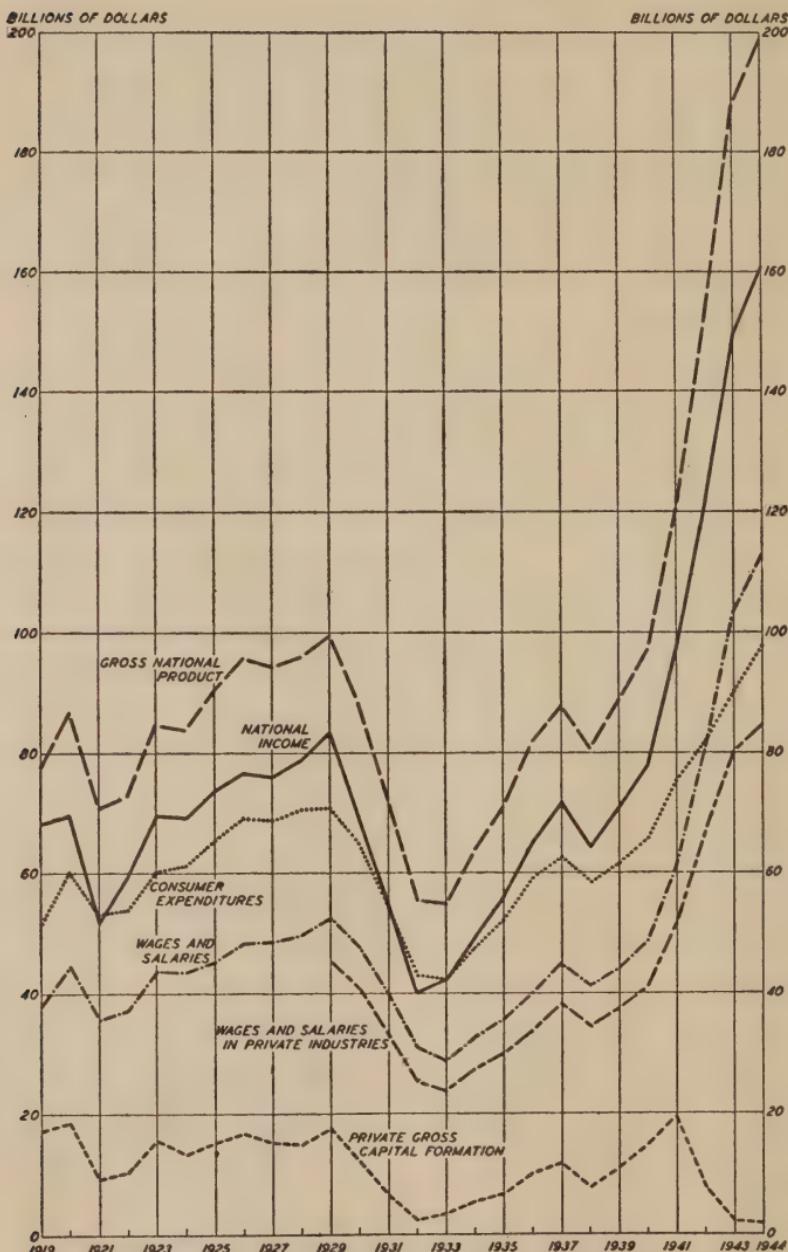
(Wages and salaries may be compared with national income for 1929-45 by reference to App., Table 9.) In the same year the estimated total consumer expenditures for goods and services was 61.7 billion dollars. It needs no argument that the pay roll of private industry is a prime factor in the total of consumer expenditures, especially since wage earners must use a larger percentage of their incomes for consumption than do those in the higher income brackets.<sup>1</sup>

Consumer expenditures in 1939 accounted for nearly two thirds of the total expenditures for all types of goods and services. The remaining 30 per cent is taken up by government expenditures of 16 billion dollars, and private gross capital formation of 10.9 billion dollars.

Apart from the large role of the wage bill of private industry in total income payments and consumer expenditures, the nonwage share of the national income must also depend heavily upon the production stimulated by continuing full-pay envelopes. That total wages, consumer expenditures, and the level of business are generally related is obvious enough. The chart on page 180 bears out the general tendency of the curves to run parallel, with total consumption more gradual than the others. In a year of peak business activity, savings will be high, increasing the spread between consumer expenditure and total income. In a depression year, the net increment of goods and services produced—that is, national income—may dip below the total of consumer expenditures. In other words, we satisfy our basic consumption needs even if we have to draw off our capital to do so.

<sup>1</sup> We need not stop at this point to take account of savings, since we are here concerned with broad relationships rather than exact ratios.

## PAY ROLL, OUTPUT, AND EXPENDITURES, 1919-44<sup>a</sup>



<sup>a</sup> For data see table, p. 189 and App., Table 9.

It was noted in an earlier chapter, that when the production index for manufactures was rising from a low of 56 in 1921 to a peak of 110 in 1929, the employment index was climbing at the same time from 84 to 108, and the pay-roll index from 87 to 127. When pay rolls dipped slightly in 1924, production did likewise. When the depression of 1932 cut production to half of its previous peak, factory pay rolls dropped by more than half. When manufacturing pay rolls doubled between 1932 and 1937, the index of production had likewise climbed by 100 per cent.

Granting that there is this sympathetic relationship between the level of wage payments and general employment levels, does it follow that by guaranteeing the wages in specific industries greater assurance of more stable aggregate employment will be given? Here we must reckon with the different and competing categories of expenditures which do not respond uniformly to the stimulus of the national pay roll. Also to be reckoned with is the fact that the labor bill may form a small fraction of total cost in one industry and may be the dominant cost factor in another. Those important areas of the economy which fluctuate most widely, which are mainly responsible for heavy unemployment, and yet may be governed by factors other than the general level of pay rolls must likewise be kept in mind.

#### THE FLUCTUATION OF CONSUMER DEMAND

If high, national pay rolls could ensure continuing high employment and high production across the board, we should expect that once the high levels were attained, business would remain on the plateau. But didn't we have such levels of wages and employment in 1929 and in 1937? In 1929 salaries and wages alone were nearly 53 billion dollars—a figure greater than the total na-

tional income three years later. Salaries and wages held up better as a fraction of total income for the low year of 1932 than in the high of 1929;<sup>2</sup> nevertheless, the salary-wage bill had dropped by 40 per cent between 1929 and 1932; production had dropped even more sharply.

In 1937, when employment for the first time reached levels approaching those of the twenties, it could hardly be said that consumers had caught up with the backlog of needs unsatisfied during the thirties. Yet the national income fell more than 7.5 billion dollars between 1937 and 1938. Total consumer expenditures were 4 billion dollars lower in 1938 than in 1937. What happened to pay-roll performance? How is it that the high pay rolls in 1929 and 1937 did not prevent the sharp fall of production and employment from the peak year levels?

A fully comprehensive answer to the dilemma of the business balloon that rises but will not stay up would involve us in a treatment of business cycle theory upon which we cannot here embark. The causes behind the failure of peak national employment pay rolls to maintain their levels are complex in the extreme. The behavior of economic expansion and contraction is a conglomerate of independent and interdependent decisions. The explanations that have seemed potent at one time or another would include the role of investment prospects, their judgment and misjudgment; the defects in the system of credit, money, and prices which prevent timely adaptation to changes in business activity; the inflexibility of governmental fiscal policy; the poor timing of wage adjustments downward or upward. There has even been debate as to the validity of the concept of the

<sup>2</sup> Estimated salaries and wages for 1929 were 66 per cent of the national income that year; they constituted 71 per cent of the total national income in 1932.

business cycle per se, in accounting for changes in business and employment activity, because the apparent chief cause has not been the same from cycle to cycle.

We say in general terms that the law of diminishing returns has a way of catching up with business investment, that when employment is already high and capacity has been built up to high levels fear develops that demand is being satiated; the prospect of further increase at the same rates seems less promising, hence the rate of new capital formation slows down.

That traditional explanation of retreat from peak levels has tended to focus the emphasis on the humors of investors, on the shortcomings of stimuli, and correctives in public and private finance. In that emphasis, too little note has been taken of the fact that certain important sectors of consumer demand are themselves highly influential contributors to the peaks and valleys that develop in the business cycle. These reflections of the freedom of consumer choice are quantitatively impressive.

*Shifting consumer investment.* An estimate developed by the Federal Reserve Board gives the aggregate of consumer expenditures for durable goods between 1922 and 1940 as 183 billion dollars. That is roughly one and a half times the amount—125 billions—which was spent on business plant and equipment over the same period.<sup>3</sup> The way in which consumers distributed that huge fund, over time, is quite as significant for our study of the impact of the guaranteed wage as is the size of the pay roll. (See table on p. 184).

To illustrate the point, let us take the fluctuations in the curve of residential construction, which has had

<sup>3</sup> George Terborgh, "Estimated Expenditures for New Durable Goods, 1919-1938," *Federal Reserve Bulletin*, September 1939.

longer cycles than most capital goods. The peak in the purchase of houses was reached in 1925. Each year thereafter, the amount spent for new housing continued to go down even though total consumer income was steadily

ESTIMATED EXPENDITURES FOR NEW DURABLE CONSUMERS' GOODS<sup>a</sup>  
(In millions of dollars)

| Year | Plant  |         |   | Equipment                     |                    |
|------|--------|---------|---|-------------------------------|--------------------|
|      | Total  | Housing | Buildings<br>for Non-<br>Profit In-<br>stitutions | Passenger<br>Auto-<br>mobiles | Household<br>Goods |
| 1919 | 7,448  | 1,785   | 185   | 1,668                         | 3,810              |
| 1920 | 8,394  | 1,712   | 236   | 2,046                         | 4,400              |
| 1921 | 7,373  | 2,016   | 297   | 1,370                         | 3,690              |
| 1922 | 9,467  | 3,414   | 387   | 1,836                         | 3,830              |
| 1923 | 12,082 | 4,395   | 426   | 2,681                         | 4,580              |
| 1924 | 12,396 | 4,772   | 457   | 2,507                         | 4,660              |
| 1925 | 13,537 | 5,141   | 609   | 2,747                         | 5,040              |
| 1926 | 14,045 | 4,843   | 692   | 3,150                         | 5,360              |
| 1927 | 13,457 | 4,645   | 712   | 2,690                         | 5,410              |
| 1928 | 13,612 | 4,355   | 664   | 2,933                         | 5,660              |
| 1929 | 12,964 | 3,193   | 568   | 3,293                         | 5,910              |
| 1930 | 9,326  | 1,824   | 467   | 2,065                         | 4,970              |
| 1931 | 7,071  | 1,379   | 356   | 1,416                         | 3,920              |
| 1932 | 4,057  | 515     | 194   | 788                           | 2,560              |
| 1933 | 3,906  | 373     | 85  | 978                           | 2,470              |
| 1934 | 4,913  | 419     | 102   | 1,342                         | 3,050              |
| 1935 | 6,456  | 813     | 100   | 1,993                         | 3,550              |
| 1936 | 8,587  | 1,374   | 162   | 2,551                         | 4,500              |
| 1937 | 9,634  | 1,740   | 168   | 2,726                         | 5,000              |
| 1938 | 7,630  | 1,618   | 199   | 1,613                         | 4,200              |
| 1939 | 9,295  | 2,095   | 225   | 2,275                         | 4,700              |
| 1940 | 10,885 | 2,385   | 250   | 2,950                         | 5,300              |

<sup>a</sup> *Federal Reserve Bulletin*, September 1939, p. 733; February 1941, p. 103.

rising. By 1929 consumers' investments in residential property had reached the lowest point in eight years; that is to say, in the boom year of 1929 consumers' investment in housing was lower than it had been in any year since 1922. We thus had decreasing employment

in a basic industry, while the national pay roll was rising.

Some consumers who might under other conditions have purchased homes, found a more attractive disposition for part of their wages in the late twenties in the purchase of automobiles. With the acquisition of the automobile, there was the additional bite into their incomes from the consumption of gasoline and the various other services and amusements that developed with the automobile age.\*

*Rebudgeting of consumer incomes.* During the peak housing years of 1924, 1925, and 1926, consumers were tying up an increasing part of their wages in mortgage instalments on new residences, leaving proportionately less for other items of expenditure. The buyers of residences were also devoting a larger portion of their pay checks to household goods for the equipment of their homes. Indeed, while the demand for construction workers on homes was declining during the late twenties, the makers of furniture, draperies, rugs, refrigerators, and other household goods were increasing their production and employment. The purchase of refrigerators, washing machines, and other instalment items also tied up fixed fractions of wage funds. Automobiles topped the list of items building up consumers' fixed charges.

Altogether, the current total of consumer credit outstanding had multiplied two and a half times between 1922 and 1929. That increase represented the desire

\* In the midst of the great growth in the use of automobiles, we had in 1927 the effects of the realization by the Ford Company that the day of the Model T was passing. The bold stroke of shutting down the factory and imposing severe financial strain upon the dealer agencies, made possible after a year the emergence of a new model Ford which proceeded to re-create some 60,000 jobs that had been lost during the transition. It is a nice question, whether the rehabilitation of the Ford pay roll on the accelerated basis could have been achieved if a guarantee of wages had been applicable during the interval.

of consumers to utilize a larger percentage of their incomes for durable goods, from new homes to automobiles, earmarking fixed fractions of the consumer's income. Meanwhile, other sectors in the retail and sales market, notably the consumption of apparel wool, showed signs of having reached their peak before the stock market crash of 1929.

Again, in the upswing between the depression of 1932 and the year 1937, the consumers' investment in durables more than trebled; instalment credit increased by 160 per cent, though during the same years the increase in pay rolls was not over 60 per cent. Again it was the rise in automobile purchases that mainly accounted for the increase in fixed charges.<sup>5</sup> Again the *physical* volume of consumers' purchases and retailers' orders, though hidden in lingering high price levels which prolonged retail dollar volume, showed signs of weakening even before the recessions came in basic manufactures and producers' goods.<sup>6</sup>

*Varying rhythm of demand.* That the upswing lasted as long as it did, through the late twenties, may be accounted for by the catry-forward of industrial and public utility capital expenditures. The over-all appearance of prosperity in 1929 owed immeasurably to the fact that the economy was still filling industrial construction orders placed in the previous years. Many a large construction job conceived in the middle twenties was not completed until well into 1930. In capital expenditures for electric power, 1932 was a good year—better than

<sup>5</sup> *Federal Reserve Bulletin*, April 1946, p. 432; September 1939, p. 733.

<sup>6</sup> Norman J. Silberling, *The Dynamics of Business* (1943) pp. 465-71. Of special interest are his charts of cyclical series leading to the conclusion that "the cyclical reversals in consumer durables lead the movements of total manufacture by a relatively wide interval, greater in the case of buildings and less marked in the case of household equipment, automobiles, etc. The pattern of consumer nondurables leads the general cycle also by a moderate but significant interval." p. 471.

1933, 1934, 1935. The same is true of telephone equipment. The glass container business was at a higher volume in 1933 than it had been in 1930. Some production lines reached their low point in 1933, while others picked up sharply that year.

As the analysis of fluctuations presented in Chapter IV revealed, the variations in behavior from one industry to the next were not confined to producers' goods and consumer durables.

By way of examples: Production in the important area of wool-textiles was nearly 25 per cent higher in 1933 than in 1930. Cotton consumption, also, was higher in 1933 than in 1930. Rayon deliveries, meanwhile, were hardly halted by depression. Their volume in 1933 was 60 per cent above that of 1929. Looking farther into the 1930's, we find that silk consumption was lower in the relatively prosperous year of 1937 than it had been in the 1932 depression. In the case of wool, its consumption for apparel did not reach the low point until 1934; and that was probably tied to the low wool crop, since the figures on apparel wool consumption rose by 1935 to a level 60 per cent above that of the general boom year of 1929. The decline in anthracite coal, which began in 1924, continued uninterruptedly through the boom years of the 1920's and was not reversed in the general business pickup of 1937.

Thus from the record we must conclude that maintenance of the pay-roll level, while important for consumption as a whole, will not guarantee the maintenance of demand in strategic areas of the economy. Changes in the character of demand are a part of the dynamics of the economy, and these changes would be no respecters of annual-wage guarantees in determining whether employment is to rise or decline in a given industry. It is hard to see how, when a given product is being hard-

pressed by competitive demands, the imposition of additional pay-roll overhead upon that industry would help to improve the market for its product.

Under our form of economic society, consumers cannot be coerced to buy the goods of the particular plants whose employment is in need of support, rather than allocate their expenditures to the goods which they happen to prefer. A firm annual-wage commitment in each sector of production would need insurance against investment in a new product, method, or company, that may be a serious threat to the established one. Obviously there is no present likelihood of imposing such disciplines upon consumer choices. As a practical matter the system of general guarantees would, from time to time, be in serious conflict with the trend of productive employment even in consumer goods—except for those lines that are already stable, are least in need of the guarantee, and have been cited as models for annual-wage extension. We shall revert to this problem of controls after the nonconsumer aspects of demand have been considered.

#### PRODUCERS' GOODS AND PRIVATE INVESTMENT

Consumer expenditures, we have noted, ordinarily account for somewhat over 70 per cent of the gross national expenditure. The remaining area is represented generally by private capital formation, foreign trade, and government expenditures. (See table on page 189.)

In foreign trade American exports have increasingly shifted from raw materials to finished producers' goods, with iron and steel, machinery, automobiles and other transportation equipment accounting for the greater part. The ability of foreign countries to buy and pay for these exports depends of course upon the willingness of the American people to receive goods and services in return.

GROSS NATIONAL PRODUCT AND ITS COMPONENTS<sup>a</sup>

(Value figures are in billions of current dollars)

| Year | Total Gross National Product | Private Gross Capital Formation |                      | Government Expenditures on Goods and Services |                      | Consumer Expenditures on Goods and Services |                      |
|------|------------------------------|---------------------------------|----------------------|---|----------------------|---|----------------------|
|      |                              | Value                           | Percent-age of Total | Value   | Percent-age of Total | Value                                       | Percent-age of Total |
| 1919 | 77.5                         | 17.2                            | 22.2                 | 8.6   | 11.1                 | 51.6  | 66.6                 |
| 1920 | 86.6                         | 18.5                            | 21.4                 | 8.0   | 9.2                  | 60.1  | 69.4                 |
| 1921 | 70.7                         | 9.2                             | 13.0                 | 8.4   | 11.9                 | 53.1  | 75.1                 |
| 1922 | 72.7                         | 10.3                            | 14.2                 | 8.5   | 11.7                 | 53.9  | 74.1                 |
| 1923 | 84.5                         | 15.6                            | 18.5                 | 8.7   | 10.3                 | 60.2  | 71.2                 |
| 1924 | 83.7                         | 13.3                            | 15.9                 | 9.1   | 10.9                 | 61.2  | 73.1                 |
| 1925 | 90.4                         | 15.3                            | 16.9                 | 9.6   | 10.6                 | 65.5  | 72.5                 |
| 1926 | 95.6                         | 16.8                            | 17.6                 | 9.8   | 10.2                 | 69.0  | 72.2                 |
| 1927 | 94.2                         | 15.2                            | 16.2                 | 10.3  | 10.9                 | 68.7  | 72.9                 |
| 1928 | 95.9                         | 14.9                            | 15.5                 | 10.6  | 11.1                 | 70.5  | 73.5                 |
| 1929 | 99.4                         | 17.6                            | 17.7                 | 11.0  | 11.1                 | 70.8  | 71.2                 |
| 1930 | 88.2                         | 12.1                            | 13.7                 | 11.2  | 12.7                 | 64.9  | 73.6                 |
| 1931 | 72.1                         | 6.4                             | 8.9                  | 11.5  | 15.9                 | 54.2  | 75.2                 |
| 1932 | 55.4                         | 2.2                             | 4.0                  | 10.2  | 18.4                 | 43.0  | 77.6                 |
| 1933 | 54.8                         | 3.3                             | 6.0                  | 9.1   | 16.6                 | 42.4  | 77.4                 |
| 1934 | 63.8                         | 5.3                             | 8.3                  | 10.8  | 16.9                 | 47.7  | 74.8                 |
| 1935 | 70.8                         | 6.7                             | 9.5                  | 11.9  | 16.8                 | 52.2  | 73.7                 |
| 1936 | 81.7                         | 10.0                            | 12.3                 | 12.6  | 15.4                 | 59.1  | 72.3                 |
| 1937 | 87.7                         | 11.6                            | 13.2                 | 13.6  | 15.5                 | 62.5  | 71.3                 |
| 1938 | 80.6                         | 7.7                             | 9.5                  | 14.4  | 17.9                 | 58.5  | 72.6                 |
| 1939 | 88.6                         | 10.9                            | 12.3                 | 16.0  | 18.1                 | 61.7  | 69.6                 |
| 1940 | 97.1                         | 14.8                            | 15.2                 | 16.7  | 17.2                 | 65.7  | 67.7                 |
| 1941 | 120.5                        | 19.4                            | 16.1                 | 26.5  | 22.0                 | 74.6  | 61.9                 |
| 1942 | 151.5                        | 7.7                             | 5.1                  | 62.0  | 40.9                 | 81.9  | 54.1                 |
| 1943 | 187.8                        | 2.1                             | 1.1                  | 94.8  | 50.5                 | 90.9  | 48.4                 |
| 1944 | 198.7                        | 1.8                             | 0.9                  | 99.4  | 50.0                 | 97.6  | 49.1                 |

<sup>a</sup> Survey of Current Business, May 1942; April 1944; Federal Reserve Bulletin, September 1945, p. 873.

A high general level of national income would tend to increase purchases of imports, and investments abroad would tend to increase exports. Our foreign trade would be helped indirectly if the guarantee of wages could raise the total of employment. In any event, so many

outside influences in the field of international politics impinge upon this factor, that the relationship between guaranteed wages and our foreign trade must be considered rather remote.

As to government expenditures, fiscal policy can be shaped without regard to the annual wage. There is no necessary causal relationship between guarantees and the level of government outlays. One might guess that a guarantee of wages would increase the pressure for public expenditures to keep employment active in durable goods and construction, but such action has been taken without the annual wage as stimulant. So far as the workings of private enterprise are concerned, the main problem at this point is to appraise the potential impact of wage guarantees on private capital formation.

Production of producers' durable goods for private capital formation, including construction and machinery, has been responsible for as much as one sixth of the gross national product in prosperous years. The employment directly affected by the capital-forming industries would include not less than eight million workers, if we consider the mining, construction, manufactured durables, and transport involved.

The significance of this sector to the employment picture is not as fully realized in the percentages of average total employment, as it is in the high percentage of unemployment for which it accounts when business declines. The decline in consumer expenditures over the three years 1929-32—from 53 billion dollars to 40 billions—meant a loss of somewhat over 25 per cent. The corresponding fall in capital goods formation was greater even in absolute figures, but much more severe percentage-wise. In 1929 gross private capital formation of 19 billion dollars represented approximately one fifth of the

gross national product. In 1932 private capital formation, estimated at 2.2 billion dollars, was hardly more than 4 per cent of the gross national product. (*Net* capital formation was a minus quantity—a deficit of about 4.5 billion dollars—in 1932.) Between 1937 and 1938 consumer expenditures declined by about 6 per cent; but private capital formation fell 30 per cent (from 11.6 to 7.7 billions) during the same year.

That the cost of pay-roll maintenance is not one to be borne by the cyclically sensitive industry, but is one of common responsibility to reduce the fluctuations or jointly bear the burden, is clear from the employment record. The iron and steel industry had to lay off more than half a million employees between 1929 and 1932. More than 600,000 were discharged from machinery plants. At least another quarter of a million had to be dropped from the producers' equipment areas in mining, lumber, chemicals, rubber, nonferrous metals, and industrial transportation equipment. In these industries we encounter the phenomenon of a loss in pay rolls over three years exceeding the total pay roll of the last good year.<sup>7</sup>

Current changes in the total of consumer production may go on for a while with negligible effect on the demand for capital equipment. When the capital goods industries rise or fall, we have a cumulative triple impact: on the durable goods industries themselves, on the job-making activities generated by the use of the capital equipment, and on the consumer expenditures of the employees involved.

*Replacement and innovation.* Some gross capital for-

<sup>7</sup> Reference to App., Table 5 will show that the wage bill of the steel industry in 1930 was 1.3 billion dollars. From that point it declined .5 billion dollars in 1931, and nearly .9 billions in 1932. Similar declines will be revealed by comparing high and low years in other durable lines, such as machinery and transportation equipment.

mation takes place in poor as well as good years; a minimum of replacement may be so urgent that it cannot be postponed even in a year of low business. The greater part of it, however, is by its very nature postponable, awaiting favorable opportunities to make full use of the equipment. The timing of those opportunities is largely unpredictable.

It is impossible to separate accurately the amount of capital equipment that is strictly replacement from that which represents new investment; even in replacement something new may be added. The story differs from one industry to another. But full employment requires high activity in the area of capital formation which spells new business—construction and equipment—produced for development of new enterprise and new products. It is this new-investment area of capital formation especially that may run from practically zero to a major fraction of all capital goods production. Going at full blast, the *net capital formation* may account for 10 to 12 per cent of the national income and more than a third of the employment in industrial production, apart from its stimulus to employment in transportation, power use, and related services. In depression net capital formation is a minus quantity; it creates the problem of finding other jobs for those workers who are needed in the durable lines only when new capital investment is vigorous.

How is the annual wage to be guaranteed in this sector of the economy? And, as a corollary: if by an annual-wage guarantee, the workers were retained through lean years in the capital goods industries, would that best serve to sustain the nation's real income?

#### CONSERVING WAGE FUNDS FOR LEAN YEARS

The building up of reserves in fat years has been the

classical prescription for taking care of the lean years. In the situation we are considering, it is not ears of corn that have to be stored for future consumption, but claims on liquid assets which should be convertible into multifarious additional demand satisfactions when needed. In the stable consumer industries the reserves to be set aside may constitute a readily-controlled element of cost. The case of the Nunn-Bush Shoe Company may be recalled, where employees accept a fixed percentage of total sales as the basis of their pay in the knowledge that a moderate withholding of their wages in better years will adequately supplement the reduced earnings of a below-average year. Building a reserve for ironing out seasonal differences may involve little more than the arithmetic of balancing overtime against undertime, within a few weeks or months of each other. But reserve building takes on an altogether different complexion when it has to meet the vagaries in production for capital formation. It may be recalled (referring again to the table on p. 189), that the combined private capital formation of the four years 1931-34 inclusive did not add up to a total equaling the capital formation in the single year of 1929; nor did any three of those years in the 1930's equal the capital formation of any single year between 1923 and 1930. Under such circumstances, both the practicability and the desirability of making the affected firm or industry carry the whole burden of building up sufficient reserves in fat years to take care of the lean would be hard to defend.

To be realistic, we should have to say that no firm commitment for annual wages could be volunteered in machine tools or a similarly sensitive industry, except for those employees who are regarded as essentially the basic crew. Those who are normally let out when the

boom is over would therefore be left where they were before, unless we add the disillusionment of a guarantee that is not made good. The problem would still be one of finding a berth for them in other lines where, in turn, wage guarantees might increase the difficulties of the outsider to break in. Any assurance to the bulk of the employees attached to the industry in good times would need support from a large program of planned, continuous investment under authorities capable of determining the timing, the kind, and the volume of capital goods to be produced.

The demand for industry-wide annual wages, however, has typically carried with it no suggestion that important changes in the character of our system of private enterprise must accompany a general application of guarantees. It may therefore be helpful for revealing the nature of our problem if we continue the analysis as though we had industry-wide wage guarantees in a business framework of private investment and competitive markets.

We need not confine ourselves to the extreme case of the drop from the late twenties to the 1930's, to the extreme case of the machine tool industry, or to the extreme assumption that all who are employed at the peak must necessarily be included within a full-time guarantee. Assuming that agreement could be reached on a "high employment norm" for particular firms and industries, what are the implications of making financial provision in the better years for the underemployment that is to be compensated in the less active years?

*Reserves for the guarantee.* Reserves to meet a guaranteed wage agreement have obvious differences from those created under old-age and survivors insurance, or under unemployment compensation. The Social Security

reserves are a common pool toward which stable and unstable firms contribute. Despite experience rating differentials, the purpose is to create a general insurance fund. The more stable industries put in more than they draw out; the less stable draw out more than they put in. With the guaranteed wage reserve, on the other hand, each firm or industry has to cover the cost of the employment it fails to give those attached to the guaranteed pay roll. Considering the wide range in degree of stability of various industries, the reserve requirements may run from practically zero in some industries to a very substantial increase in costs in others.

If a firm is to build a guarantee reserve from the resources under its command, the reserve must come from one or all of the following: withholdings from wages; withholding from profits (dividends) and surplus; an increase in price. Conceivably, the strain on any one of these sources could be reduced if the guarantee should justify itself in a general increase of productivity, with a corresponding increase in sales. This factor, however, must remain a moot point. There should be less cause, with wages guaranteed, for the worker to stretch out the job; on the other hand, the creation of a sinecure could tend to reduce the necessity of toeing the mark. The use of quotas, efficiency premiums, and other incentives is often joined with annual wages and may be the deciding factor in the net effect on efficiency.

Where competitive forces are powerful, it would not be possible to absorb the bulk of the annual-wage reserve through a rise in price. Nor can the reserve be taken mainly out of price, where the demand is elastic enough for marked consumer resistance to develop if prices are increased. At the same time, we may expect the wage earners to resist efforts to build a reserve by reduction of

wages; and the stockholders and management, likewise, to resist a drastic reduction of the profit margin.

The resultant would mean some yielding by all parties concerned. The impact on wages would probably not be a lowering of the nominal rate, but might assert itself either in giving up overtime, as has already happened in the voluntary wage agreements, or moderating demands for rate increases. The residual return to the owners could not practicably remain below the point where investment is justified. We may assume, then, that some of the added cost will be transferred to the buyer.

*Nature and effect of reserves.* As to the form the reserve will take, we must assume that it will have to be an asset liquid enough to permit ready conversion into pay-roll funds when necessity arises. Typically, we should expect the reserve to be invested in government bonds or securities of comparable marketability. The reserve would thus constitute a transfer of what would normally be consumer funds, business expansion funds, or individual savings into a "safer" investment channel. Without attempting to follow in detail alternative uses to which the proceeds of such securities could be devoted, it nevertheless seems reasonable to assume that the immediate direct effect would be to render the funds thus set aside less active than they might otherwise have been —a slowing down of the tempo of consumption and private capital formation.

How serious or how lasting this immediate effect might prove would depend upon the general climate of business activity in which the withholdings took place and on the extent to which the financial system stepped in to take counterbalancing measures. If large reserves were built up while there was still a considerable amount of unemployment, they would tend to hamper the ex-

pansion necessary to support a prosperity level. If, however, the withdrawals mounted when production was high and labor shortages were becoming noticeable, the dampening effect on further expansion might be salutary. In the same way, the banking system could follow up the reserve building by a liberal credit policy, so that bank loans for business expansion might fill the gaps caused by the withholding of reserves. Concurrent management of the financial scene might be invoked also, to prevent reserve-builders from bidding up prices of gilt-edged securities to the point where interest rates would be seriously affected.

The forces would operate in reverse on the downswing of business, when employment tapers off and the reserves must be used up in order to compensate for idle time. The additional funds made available to the underemployed would undoubtedly stimulate the current forms of consumption expenditure. They would tend to reduce the amount of dissaving by the workers who have savings and improve the meeting of obligations for instalments and other fixed charges. At least that order of events should apply to those protected by the guarantees.

It is quite doubtful, however, that funds made available through the liquidation of the reserves would appreciably stimulate production in the capital goods areas. The idle worker may be thankful for the help given him through the guarantee arrangement, but is not likely to splurge with new expenditures in durable goods when he knows that his guarantee period may run out. And it is the durable goods sector of consumer expenditures that presents the more difficult employment problem.

For business revival the process of liquidation has much wider implications. Any large-scale liquidation of securities must normally have a depressant effect on

the entire securities market, and that means a depressant on capital expenditures. The absorption of large quantities of securities by the banks must call forth measures of support by the government to prevent the prices of government bonds and other securities from falling to disastrously low levels.

The liquidation of reserves would take care of the guaranteed employees. The problem of relief for those not under the guarantee would remain. Should a depression outlast the duration of benefits from unemployment compensation funds, the government would be under the necessity of new deficit financing on top of the liquidation of the government bonds used for reserves.

In what combination these reactions would take place or exactly what the net effect would be cannot be stated with confidence. It can only be presumed that to the extent that the special phenomenon of reserves has modified the automatic action and reaction of markets and pay rolls, the necessity of controlling the follow-up stages in the interest of making good the original intentions would become more and more the primary obligation of public authority.

*Reserves and production.* The establishment of payroll reserves could provide a definite monetary source for the claims of guaranteed workers. It does not, however, guarantee an addition to the total supply of real income in goods and services. The reserves may have been built up as indicated through a certain amount of withholding. When the IOU's of the security-issuing agency are presented for payment to take care of recession pay rolls, the borrowing agency—particularly if it is the government—meets that demand by issuing new IOU's with which to raise the cash for paying off the old. There is no storage from previous years of *product*

reserves; there is only a transfer of *claims* on current production which the guaranteed workers get in order to maintain their current expenses.

The social value of this maintenance of continuity to the workers is undeniable. In certain communities the stability of the whole local business structure may be significantly assisted by the availability of such payments during periods of low production. The effect on the economy as a whole is more debatable. Heavy liquidation of reserves could hamper the ability of the government to finance public activities on behalf of nonguaranteed workers, and a securities market under liquidation pressure would hardly conduce to a revival of new capital formation. On balance it would appear that the stability of nondurable consumer goods industries might be further fortified by cumulation and liquidation of reserves. But except for the tendency to moderate expansion on the upswing, the cumulation and liquidation of the reserves would have no apparent stimulating effect on the strategic durable goods sector.

#### LABOR AVAILABILITY AND TOTAL EMPLOYMENT

If we took it for granted that guaranteed annual wages would tend to stabilize the labor force by reducing turnover, we should still have this question before us: Is it in the interest of total employment and improved living standards to achieve maximum stabilization of the labor force?

Must not the volume of production be related to the market demand for the product, rather than to a volume based upon the number of employees attached to the industry? As to capital goods industries, is it desirable that they support a stand-by group above normal capital replacement requirements, rather than to share the extra

labor force with other industries that may make use of them?

Ideally, when the capital goods industries have reached high ground—when they have been rapidly increasing the productive capacity of the business structure as a whole—some of their employees should be moving into the lines of production which utilize the extra capacity that the capital goods industries have been creating. Actually, the redistribution of the working forces is not timely enough; there is no such nicety of synchronization between capital goods and consumer goods employment. Some sluggishness in movement of labor from the lesser to the greater employment opportunity must be accepted, since we are dealing with the movement of human beings who have roots in family ties, homes, and community associations. Our society recognizes the value of that family stability in the pay-roll taxes for unemployment security. But there is no assurance of economic security in a system of premium on prolonging a worker's attachment to an industry or situation which cannot productively support him.

*Multi-job production.* A substantial segment of total employment represents the sum of short-term jobs. Some industries for natural reasons have peaks that cannot economically be leveled. Extra crews released by such industry are vital to production in others.

Our data on the character and extent of multi-job employment are extremely meager. The Social Security Board notes:

The striking fact [is] that after the old-age and survivors insurance system had been in operation for nine years, only about three fifths of all workers with wage credits were either fully or currently insured. . . . Detailed data on the work history of all persons with wage credits in one or more of the six years,

1937-1942, show a surprising amount of movement into and out of covered employment. Only part of this shifting can be explained by unemployment, the entrance of young workers into the labor force, and the withdrawals of older workers from the labor force because of disability, retirement, or death.<sup>8</sup>

The movement in and out of covered employment does not of course touch upon the job shifts among industries inside the social security coverage.

The Census of Agriculture for 1940 indicates that 29 per cent of all farm operators in the United States worked for pay at jobs not connected with the farms they operated. In a sample taken by the Social Security Board in the spring of 1941, covering rural areas in Iowa, it was found that "32 per cent of the Arkansas sample group, and 11 per cent of the Iowa group, had, at the close of 1940, obtained social security account numbers [in covered employment]."<sup>9</sup>

From a check of workers who were covered both under the Railroad Retirement Act and the Social Security Act, "it is estimated that during 1937-1939, nearly 750,000 workers received taxable wages under both systems. They comprised nearly one third of all workers with railroad employment."<sup>10</sup> Of these, it was said, "the workers with dual coverage were much younger than most railroad workers. This fact put them at a disadvantage in the railroad industry in which lay-offs were made in accordance with a strict seniority system." (A random sample of farm workers in Iowa and Arkansas also re-

<sup>8</sup> Bureau of Old-Age and Survivors Insurance, *Old-Age and Survivors Insurance Program Analysis, Report 1, Insurance Status*, August 1946, p. 60.

<sup>9</sup> *Social Security Bulletin*, June 1943, p. 20.

<sup>10</sup> Bureau of Old-Age and Survivors Insurance, *Report 1, Insurance Status*, p. 58.

vealed that the group depending upon more than one job was likely to be the age group under 35.)<sup>11</sup>

*Fixity versus opportunity.* Distinction thus needs to be made between two aspects of employment security. One is reflected in continuing employment on a given job. The other lies in the opportunity to find one's best niche as an employee, without being barred by guarantees which solidify the existing labor force against outsiders. The natural caution against taking on additional employees when that would mean additional guarantee overhead obligations would tend, under wide extensions of guarantee commitments, to freeze the employment among the older generation of workers. It would in that respect hamper the opportunities of younger workers to make a place for themselves in the established labor force.

From the standpoint of maintaining stable employment for workers in producers' goods lines, it should be noted that new investment activity depends on freedom of employees to move into the work for which the new equipment or capacity is being created. Production of new capacity involves new outlets for the exercise of consumer preferences, which likewise call for mobility of labor to work in the new areas of demand.

With each firm striving for stabilization and emphasizing the elimination of risk elements in utilization of the labor force, we could easily come out with a contraction rather than an expansion in total employment. Perhaps the most difficult aspect of public education on the annual wage is in the paradox that the accumulation of guarantees over an expanding area of industry may result in aggregate production at a level too low to sup-

<sup>11</sup> The same, p. 60.

port the guarantees. With industry-wide guarantees sharpening the distinction between insiders and outsiders, the movement of workers in and out of occupations to meet changing demands becomes progressively less flexible. To keep the more rigid structure productively occupied with a continuous flow of orders there-upon would need production planning, in which the individual worker as well as the individual firm filled the spot assigned to him as a unit in that plan.

### SUMMARY

The task set for this chapter was to see how the broadening of annual-wage guarantees might react on the current economic structure—whether the guarantee of a full pay envelope to industrial workers would help create the conditions under which those guarantees could be sustained with production, which alone could give real meaning to guaranteed annual wages en masse. Here, as before, our interest has focused on the effect which the guaranteed annual wage might have on the durable and capital goods industries, where the problem of fluctuating employment tended to concentrate in its most severe form.

*Guarantee of purchasing power.* First, we considered the value of guaranteed pay checks for continuing demand on the part of the workers as consumers, thus generating the production by which the pay checks were indeed endowed with a real income equivalent.

We recognized the large place occupied by consumer purchases in the total scheme of production. We did not need to dwell on the direct application of assured pay checks to that portion of consumer purchases which was in currently expendable items where the demand held

relatively steady, and where the basis for steady pay rolls to employees already existed.

When we came to the sectors of consumer durables, we found that high employment was not maintained simply because pay-roll levels were high. Left to self-determination, the consuming public changed the employment from one line of industry to another by the exercise of consumer preferences. We saw, for example, that even at peak employment a wave of consumer investment in certain capital goods, like houses and automobiles, diverted increasing fractions of the pay checks to continuing commitments for those durable lines and to the goods and services associated with them, at the expense of other lines. The maintenance of pay rolls did not prevent some commodities from declining in favor of others which at the same time were increasing their volume.

Guaranteed pay rolls could not, under a system of consumer freedom, ensure the flow of consumer funds into the different channels of production, in the relative amounts needed by specific industries to support full pay rolls. A guarantee by industries not so supported would thereupon make their continuing in business even more, rather than less, precarious.

*Producers' goods.* When it comes to the heavy industries representing purchases for business purposes rather than for personal consumption, a period of high employment means the creation of a large amount of new productive capacity. At that level, the economy has difficulty in continuing the same rate of progress in the demand for additional capacity as existed when there was the prospect for plenty of improvement in employment and demand. The mere replacement of worn-out capacity is not sufficient to keep up high employment in

capital goods lines. On the other hand, the very demand for new and improved equipment, reflecting new products or new processes, is in itself a factor involving the disturbance of the status quo. There is no assurance that those embarking on new lines or processes would be the very firms whose established lines were becoming obsolescent. Under a privately operated enterprise, a guaranteed annual wage would be borne by individual firms which were not in a position to determine the flow of orders upon which their ability to sustain the guarantee would depend. To the previous risks of fluctuating business would be added the further risk of having to meet pay rolls for which there was no matching production. The lack of control by individual firms likewise applies to the area of foreign trade and to the area of government expenditures.

Thus, our first section led to a conclusion about what the annual wage would not do. The wage bill did not have the leverage to swing strategic parts of the economic system that would have to meet the costs of the guarantee.

*Flow of funds.* We then moved to the question of how the efforts of management to meet the guaranteed wage bill would affect the flow of goods and funds into consumption and investment. To safeguard the wage commitment would call for storing up, in good times, the funds to cover the workers over the estimated future underemployment. Firms and industries would vary in their ability to set up reserves, depending on their product and competitive conditions, as well as their size, maturity, and financial strength. Taken in the aggregate, the building of guarantee reserves meant a present withholding of funds—most likely in securities regarded as safe and highly liquid in character—as

against the direct use of those funds for job-making, business expansion, additional wages, or distribution of profits which supply the means for new investment. The reserve fund might be treated as an addition to cost, reflected in varying degrees as an increase in price, a holding down of wage rates, or a reduction in profits.

Whether or not this immediate slowing down were to prove a more lasting depressant on the economy would depend upon the success of countermeasures. Borrowing of additional funds and provision of additional active monetary supply might be brought about through manipulation of the banking system.

We next considered the downward phase of a business cycle, which pay-roll guarantees would not prevent the strategic fluctuating lines of industry from generating. The liquidation of reserves would activate the flow of payments to underemployed workers, keeping up their current expenditures and helping to meet their fixed charges. The surrounding economy of distributors and producers of consumers' goods and services would likewise get support from the maintenance of pay rolls. It was questioned, however, whether even the guaranteed workers would be disposed to undertake purchases of durable goods which involved future commitments in a period when they were being underemployed.

It was also noted that in a period of heavy liquidation of reserves, securities would be depressed and the government would have to meet the demands for cashing its IOU's. The government would still have in addition the problem of caring for the workers who were not guaranteed, through public works and other direct measures.

The total effect through better and worse business conditions could very well be more stable money in-

comes over a longer time for the workers under guarantee. If, as the analysis strongly indicated, the total production over the years would not be raised by the building of guarantee reserves, but might even hit a lower average than without the guarantees, the real basis of security for all employees, guaranteed as well as unguaranteed, would not be achieved. The less strong firms, given the added pressure of the guarantees, might more readily fall by the wayside in the absence of concerted protective measures.

*Labor opportunity.* It was then pointed out that the very process of trying to maintain intact the existing crews of guaranteed workers meant a significant slowing down of the mobility of workers to fit job opportunities. It meant also a greater barrier for those not inside the guarantees to break through to get jobs when employment had to be engineered to take care of the already guaranteed body of workers. With the normal prospect that the workers currently employed would expect to be guaranteed thereafter, the willingness to take on new workers would be reduced. There would be a progressive concentration of work opportunities among the older, established working force.

The rhythm of livelihood for many rural workers, railroad workers, and others makes them dependent on more than one job to add up to their total yearly income. Those who represent the "extra force" when supplementing their other employment would with cumulative stabilization have less opportunity for work in those lines which took on extra workers for periods of peak volume—unless new prerogatives of guaranteed part-time emerged.

It has seemed evident from the analysis of the variations in the stability of production and demand, that

those lines of business which already had the risk of fluctuating demand for their products could not by themselves assume the additional obligations of substantial guarantees.

*Public intervention.* We come to the last implication of generalized guarantees on the economic structure—namely, that public intervention, beyond our current unemployment compensation, would be required to support the guarantees with an even flow of goods and funds. Public action would have first to discipline the order of consumers' preferences so that they would fall into the areas of production where the pay rolls need support. Public controls would have to be broadened to prevent the disturbances in the securities market or in the monetary and credit supply, such as would logically ensue if the guaranteed wage were imposed on an otherwise free market of private decisions. Public machinery to enlarge and equalize benefits would be required to take care of employees whose employers could not keep up the guarantee of substantially full pay rolls, or of those who were outside the guaranteed circle. Carried to its logical end, the support of generalized wage guarantees would require workers, as well as goods and funds, to be channeled into the places where their labor could best support a flow of goods and services which matched pay with jobs.

#### THE ULTIMATE IMPLICATIONS

It may be argued that the treatment here given to the impact of the guaranteed annual wage upon the economic structure is hypothetical and artificial. In practice we should be more likely to see a step by step development; one labor group at a time will seek at the collective bargaining table whatever advantage seems feasible

to obtain at a given stage in labor-management negotiations. It may even be that management, aware of the importance of income security to the maintenance of labor efficiency and industrial peace, will be inclined to go along with labor in enlarging the area of annual-wage commitments. In some industries, management has indeed joined with labor unions in schemes for industrial peace that have involved substantial increases in cost. The situation in the building trades and in the coal industry would be examples of mutual agreements to create conditions which in effect increase the resistance to the widening of the market for the labor and products involved.

We are also aware that the issue of the guaranteed annual wage has currently been discussed in terms of what would seem to be safe. The suggestion has been made that a ceiling on employer obligations be set at 10 per cent of any year's pay roll, and that concessions be granted from full-time guarantees. It has been proposed to combine the commitment to the annual wage with legal sanctions for dipping into the unemployment compensation fund to reduce the guaranteeing employer's liability.

All such modifications and limitations can be accepted as reasonable suggestions for consideration by a firm or industry in its efforts to achieve a more stable situation for its employees. But they avoid the main issue. They are a far cry from the demand for a guaranteed annual wage across industry as a prior right of the worker attached to the industry. It is that demand which has been made the expressed requirement of national labor organizations in key industries. It does not meet this general and current issue and the drive behind it to discuss other programs which represent hardly more than a

gesture toward the demand for wage security. At the level of see-what-you-can-do-about-it, for the individual firm, there was general acceptance of the wage-security principle long before the war. The postwar issue in guaranteed wage plans is "the possibility of their future development in American industries as an aid in stabilization of employment and the regulation of production . . . studied on a national scale."<sup>12</sup>

The fact that the program to put an industry under an annual wage may start out with short steps does not relieve us from the necessity of seeing what the cumulative effects may be of programming toward a widening coverage of guaranteed wages. No labor leadership can afford to rest on its laurels. The start in the direction of wage guarantees must inevitably be regarded as the take-off point for the next steps. Whether or not such a program leads to full stabilization measures in two years or ten, it is important that we—that labor especially, as chief beneficiary or victim—understand the direction in which the program leads. The advantages to be derived from a leveling of income should be weighed against the price to be paid in reducing the area of flexibility in our economic life.

It is conceivable that a large percentage of the body politic would prefer a slowing down of material progress or a contraction of individual choice for consumer, worker, or investor; and even a leveling off at something less than our present standard of living, provided the standard upon which we do settle can be made more secure. If that decision is made with eyes open, it represents a valid program for those who want it—who, indeed, would have been willing to settle for that kind

<sup>12</sup> From the text of the letter from President Roosevelt to the Director of War Mobilization and Reconversion, Mar. 20, 1945.

of security in 1932. If, however, a generalized guarantee of annual wages is successfully promoted with the thought that the guarantee can be progressively expanded without contracting and radically modifying our present system of competitive private enterprise—then we are confronted with a dream that is destined to end only in disillusionment.

There is no inconsistency, in the treatment that we have given to the subject, with the belief that some firms and industries can and should modify their present indiscriminate hiring and firing practices; that firms could, by more effective utilization of their machines and man power, or more astute cultivation of their markets, come out with a sounder relationship between management and labor without sacrificing the profitability of the total operation. The conclusion from the analysis in the present chapter, however, remains—that if a system of generalized guarantees across industry, in terms demanded by the leading industrial unions, is to be made effective, with sustained production to match the guarantees, the economy must be placed under a new discipline. An authoritative role would have to be created for a government agency as the arbiter of the flow of commodities, man power, machinery, investments, and funds to keep pace with the stride of the pay-roll commitments in the affected areas of the economy.

Even to achieve a tenable basis for wider guarantees, short of general coverage for industry, will require an enlarged role for the government in the guidance of our economy. It is the purpose of the following chapter to consider the more important aspects of that role.

## CHAPTER VIII

### THE ROLE OF THE GOVERNMENT

Our social security legislation recognizes unemployment as a hazard of industry; through unemployment compensation we share in a common obligation to cushion the loss of earnings of those who are laid off. The guaranteed annual wage may be viewed as a supplementation of unemployment compensation which puts the primary financial obligation for regular pay rolls upon the employer. The bearing of the annual wage upon current social security legislation needs to be examined.

The foregoing chapters have dealt with the dilemmas confronted in aspiring to an economy of stabilized earnings. In the first half of this study, particularly in Chapter IV, attention was called to the diversity of the currents that combine to give our economy its vitality as a going and growing concern. The prevailing upward trend in national production and living standards has been accompanied by irregularity in employment and pay rolls as between time periods, industries, or firms. Individual lines of business may run counter to the general trend of activity. Some may for a while drag down the rest of the economy in their decline, or may pull up the rest of the economy in their rise.

In the later chapters, particularly in Chapter VII, it was noted that the spread of annual-wage guarantees would not meet the problem of irregular production at the most acute points. Guarantees, moreover, tended to

be self-defeating in so far as they interfered with the effective utilization of capital and labor, by slowing down the adjustments whereby labor and other resources are moved from the less to the more promising areas of business activity. To saddle the fluctuating but highly strategic industries with unproductive pay-roll costs would be a strange way to induce a wider market for their products.

Moderation of the insecurity of earnings that is inherent in our productive but spotty economy is a common objective. But in the measures proposed to reduce the social evils of economic insecurity can be found wide differences in emphasis.

The discussion that follows will indicate the types of government action that may be called forth when the emphasis is shifted from the amelioration of individual hazards under a system of relatively free private action, to one in which the maintenance of stable employment and pay rolls is a central theme around which economic activity is arranged.

#### UNEMPLOYMENT COMPENSATION

The most far-reaching legislative effort to recognize the employment hazards in our complex, largely urbanized economy was the establishment of the unemployment compensation program in the Social Security Act of 1935. It accepts the traditional preference of the American population for an economy in which the responsibility for achieving high production and living standards is placed upon private initiative—the one which has given the American worker, by and large, the highest real income enjoyed by any national group.

Certain principles underlie the unemployment compensation pattern which are germane to the problem of

wage security and the factors that enter into its operation along with the annual wage. They may be stated briefly as follows:

Some unemployment is recognized as inevitable with changes in production methods and in relative demand for competing goods. Even at high employment levels, frictional unemployment must be allowed for to permit the movement of resources from less to more urgent areas of demand.

The victims of unemployment, especially under mass production, have little or no influence over its incidence. Most firms, likewise, have only a narrowly limited control over the changing demand for their product.

The layoff is regarded as an employment situation that can no longer support the worker. Unemployment compensation provides partial support while he is seeking new employment. Compensation is coupled with the requirement that the employee shall accept suitable alternative employment which is offered to him.

The amount of compensation is a fraction of full-time earnings when employed. The maximum figure represents, for typical cases, roughly one half of full-time earnings. It is a principle of the program that there must be enough difference between unemployment compensation benefits and full-time earnings to leave incentive for seeking a job.

It is assumed that a maximum duration for benefits of five to six months will take care of most unemployment situations. If the employee is unable to find a job when business is not far below normal, the status of the unemployed is regarded as one that must be met through public assistance rather than unemployment insurance.

When the duration of unemployment runs beyond

the maximum duration for benefit payments because of a severe general depression, it is presumed that the time has come for supplementary government action instead of reliance upon the normal unemployment compensation program.

#### LEGISLATIVE INDUCEMENTS TO MORE STABLE PAY ROLLS

The Committee on Economic Security, in its report to the President recommending social security legislation, conceived unemployment compensation as "a first line of defense especially valuable for those who are ordinarily steadily employed, but very beneficial also in maintaining purchasing power."<sup>1</sup> Thus, an offset to loss of earnings on the part of the unemployed was regarded as the immediate function of the program, and support that it could give toward maintaining purchasing power was regarded as a beneficial by-product. There was, however, the expressed hope of expanding the social security program to make it a factor in stabilizing employment and earnings. At one point in its report the Committee went so far as to say, "There would be no unemployment problem if all workers were guaranteed a sufficient annual wage."<sup>2</sup> Toward attaining that end, it recommended "that employers be permitted to experiment with guaranteed employment under the state laws, but also that such experiment should be conducted only under safeguards."<sup>3</sup>

Two lines of legislative action to supplement the basic unemployment insurance program with inducements to encourage pay-roll stabilization, have been

<sup>1</sup> U. S. Committee on Economic Security, *Report to the President* (1935) p. 4.

<sup>2</sup> The same, p. 22.

<sup>3</sup> The same.

taken. One is the adjustment of pay-roll contributions in accordance with employment experience rating; the other is the partial exemption from payment of overtime premiums for firms that qualify under section 7(b)(2) of the Fair Labor Standards Act. A third receiving current attention, but not in the legislative stage, is the integration of unemployment compensation payments with annual-wage commitments.

*Experience Rating and Stabilized Employment.* In so far as unemployment is a hazard inherent in the economic system, its amelioration through unemployment compensation is assumed as a public obligation. This general principle of shared responsibility for the vagaries of employment in a dynamic economy is not necessarily invalidated by the gradations in contribution rates that come under the head of experience rating. The allowance of rate differentials, favoring those firms whose employment is steady and therefore not a drain on the unemployment compensation fund, has its precedent in private insurance practice. The right of the unemployed to benefits under the Social Security Act does not depend upon the experience or the rate of contribution of the firm to which the employed has been attached.

In the Wisconsin Unemployment Compensation Act of 1932, antedating by three years the federal social security program, employers were permitted to substitute their own wage guarantees for participation in the state unemployment insurance fund.<sup>4</sup> The emphasis by con-

<sup>4</sup> The 96 company guarantee plans established under the Wisconsin act were abandoned with the inaugural of the federal Social Security Act. The federal legislation took note of employers with wage guarantees by allowing them partial exemptions from contributions. But the conditions were too rigid to induce any firms to take advantage of the privilege of setting up their own accounts.

trust was on the pooled funds with uniform contribution rates. The original bill as reported by the Ways and Means Committee and passed in the House of Representatives, allowed for no experience rating in state unemployment compensation laws. In its final form, however, Congress passed the bill with a provision authorizing experience rating. The Senate Committee on Finance in reporting the amendment which prevailed over the House version stated:

As we deem it desirable to permit the States freedom of choice in this respect, we also believe that the Federal law should provide for recognition of credits allowed by the States to employers who have regularized their employment. . . . All unemployment cannot be prevented by any employers, but many employers can do much more than they have done in the past to regularize employment.<sup>5</sup>

Since the passage of the Social Security Act in 1935, the number of states with experience-rating provisions has increased until at present all but five operate under experience rating. As a practical matter, the insertion of merit-rating provisions in state unemployment compensation laws has been pushed by employers with stable employment records, to avoid contributions substantially in excess of the withdrawals for which they are directly responsible. Savings to employers under experience rating are indicated by the fact that in seven of the states with experience rating the average rate is less than 1 per cent, as compared with the standard tax rate of 2.7 per cent applying to contributors without experience rating deductions.<sup>6</sup>

Experience rating has not been in operation for a

<sup>5</sup> Cited in *Issues in Social Security*, A Report to the House Committee on Ways and Means, 79 Cong. 1 sess., p. 446.

<sup>6</sup> The same, p. 447.

sufficiently long period to show whether it may have any significant effect either in stabilizing employment or reducing labor mobility. As a principle, it reopens the question whether the maintenance of total employment stability in the sense of jobs available for the greatest number is altogether compatible with the emphasis in experience rating on the ability to hold a given worker under a given employer. Obviously, the desire to retain the financial benefits of a low contribution rate is no inducement to the taking on of extra employees, unless the employer may safely assume that he will be able to continue their employment. Moreover, the best experience, and hence the lowest rates, may be enjoyed when employment is high and the ability to contribute to the fund is greatest; while the highest rates of contribution apply to the slack periods when the employer is least able to contribute.

The right to claim merit rating under the state unemployment compensation laws depends on the employment record and does not require any formal commitments to guarantee annual wages. It is a problem for management to determine how far the savings from lowered contributions under experience rating would offset the cost of retaining employees who might otherwise be laid off. For companies like Hormel or Nunn-Bush, located in states where the reduction in contributions for low employment records is substantial, the savings under experience rating may well have a bearing on the terms of their annual-wage agreements.

The relation of experience rating to the encouragement of annual-wage agreements will be considered when we take up the proposal to integrate unemployment compensation with the guaranteed annual wage.

### THE FAIR LABOR STANDARDS ACT

Under the Fair Labor Standards Act (Wages and Hours Act) of 1938, the forty-hour work week is the maximum for regular hourly wage rates, and overtime payments are required in excess thereof. However, section 7(b)(2) of the act permits partial exemption from overtime requirements to firms which operate under an annual-wage agreement embodying the following features:

The number of hours of employment under the annual wage must not exceed 2,080 over a period of 52 consecutive weeks. The worker must be guaranteed for full time at "the regular rate of pay for which he is employed."<sup>7</sup>

Another barrier for firms wishing to take advantage of section 7(b)(2) is in the "prompt wage payment" clauses contained in state statutes on labor practices. These clauses state how often wages must be paid, and prevent the carry-over of workers' credits from high- to low-employment weeks. Thus in Massachusetts, all labor must be paid for within one week after the wages have been earned. Other states limit the carry-over of

<sup>7</sup> Under the original act the maximum was fixed at 2,000 hours per year. It was increased in October 1941 to provide that "the employee shall not be employed more than 2,080 hours in any period of 52 consecutive weeks." By official interpretation of the act, 2,080 hours would be a minimum for the pay-roll guarantee as well as a maximum for the number of hours employed in the year. According to the formula employed by the Wages and Hours Division issued when the hours were fixed at 2,000, "the fixed annual wage guaranteed the employee must be in an amount equal to the regular rate of pay at which the employee is actually employed during the life of the agreement, multiplied by 2,000 hours or to the regular weekly, semi-monthly, or monthly salary at which the employee is actually employed during the life of the agreement, multiplied by 52 weeks, 24 half months, or 12 months, respectively." U. S. Department of Labor, *Collective Bargaining Agreements*. Interpretive Bulletin No. 8, November 1940, reprinted June 1946, p. 7.

employees' earnings to periods ranging from 8 days, in New Hampshire, to 15 days in Alabama.<sup>8</sup> The employee, in other words, may owe time to the employer by having wages advanced to him in the weeks of low activity, but the employee may not have outstanding a credit to be balanced against future regular wages in slack periods. A firm must make certain that the annual-wage agreement begins during the slack time of the year when advances may be made for unearned hours, to be paid off with extra hours at a later period. A further deterrent, particularly where the company does not operate under a closed (union) shop, is the necessity of awaiting certification of the collective bargaining unit as bona fide by the National Labor Relations Board.

In recent years, when employment has been available with a considerable amount of overtime, the workers themselves have not looked with favor upon the receipt of a stable weekly pay check at the expense of the opportunity to earn considerable overtime.

The experience thus far with section 7(b)(2) makes it clear that employees as well as employers have a distaste for legal restrictions that hedge about their collective bargaining agreements and fail to meet the special problems of particular industries. Encouragement of annual-wage agreements that otherwise are economically feasible, would require making section 7(b) (2) more flexible. The act could say simply that all hours above 2,080 within a given year, must be paid for at overtime. What is done about overtime for hours within the 2,080 limit might well be left to an understanding between the bargaining parties.

<sup>8</sup> U. S. Department of Labor, *Wage Payment and Wage Collection Laws*, Bulletin No. 58, Sept. 1, 1943.

The act should also permit guarantees for less than 40 hours per week over the guarantee period; the standard work week in some industries is already below 40 hours.

The experience with section 7(b)(2) of the Fair Labor Standards Act as an inducement to annual-wage agreements is instructive. It points up the futility of trying to spell out for industry as a whole, the specific terms of employment under which annual-wage agreements may be voluntarily effected.

#### INTEGRATING UNEMPLOYMENT COMPENSATION

There is little or no disagreement on the general principle that an annual-wage agreement must in the last analysis justify itself through the maintenance of sufficient productive employment to supply the real income contemplated under the wage guarantees. However, one of the few definite and far-reaching proposals made for the encouragement of the annual wage in the OWMR (Latimer) report, is for integrating payments under an annual-wage agreement with concurrent payment from the unemployment compensation fund.<sup>9</sup> If, for example, the wage guarantee amounted to \$40 per week, and the worker when unemployed was eligible for \$20 per week of unemployment compensation benefits, the employer would supplement the unemployment compensation payment with \$25 from the funds of the company. The presumption behind the proposal is that by virtue of this relief from a part of his commitment, the employer would be encouraged to undertake an annual-wage agreement that he might otherwise consider unsafe.

<sup>9</sup> *Guaranteed Wage Study*, Interim Report, Nov. 12, 1946, Chap. 7.

The questions immediately raised by this proposal appear worth discussing here because they help to bring out the whole issue of creating special inducements to annual-wage agreements, apart from those that the business itself could be expected to support.

How would the integration of the annual-wage obligation with unemployment compensation benefits affect the ability of employers to make annual-wage commitments? How would it affect the employee under annual-wage agreements? What would be its effect on the unemployment compensation program? Would it induce more employment?

Whether the sharing of the annual-wage commitment between unemployment compensation and the guaranteeing employer constitute a net advantage to the employer would depend in the first place on the experience-rating plan provided in the unemployment compensation law of a given state.

It has been noted that all but five of the states reduce the rate of contribution in accordance with the employment record of the employer. In several states the favorable employment experience of a company may reduce its contribution to the unemployment compensation fund from 3 per cent or more to 1 per cent or less. That spread would represent a very substantial contribution to the ability of a firm to carry some of its burden. If, as expected, the effect of the annual wage is to be one of increasing efficiency and improving morale, there is an additional compensation to the employer to carry the burden of the annual wage.

When the experience-rating rebates to the company are so substantial, it might prove a net expense to the company to accept contribution from the unemployment

compensation fund, and thereby put the company in a lower experience-rating class. In the case of the Hormel Packing Co., with an annual pay roll of 15 million dollars, the 2 per cent rebated under the Minnesota experience-rating plan means \$300,000. The company has calculated roughly that when some former employees collected an aggregate of \$900 over three years from the unemployment compensation fund as a result of difference of opinion regarding the eligibility of the employees discharged, the company was penalized \$150,000 in tax payments as a result of the change thereby effected in its experience rating.<sup>10</sup>

To dip into the unemployment compensation fund, in order to keep an annual wage going, would seem a confession on the part of the company that it does not have a production basis for carrying the load itself, but is making a commitment which it can but partially make good. The contribution from the unemployment compensation fund offers, in effect, the opportunity to lay off workers earlier, at half cost to the firm, rather than to find, if it can, additional means of utilizing their services.

The annual-wage agreement has a declining attractiveness as the end of the contract period approaches. The protection of unemployment compensation is needed when a guarantee contract has expired and layoffs are indicated. It would be a more realistic arrangement, safer for both employer and employee, to frame the guarantee strictly in terms of what the business can reasonably support. If layoffs must be made, let the

<sup>10</sup> U. S. Bureau of Labor Statistics, *Guaranteed Wage or Employment Plans*, Report to the Advisory Board of the Office of War Mobilization and Reconversion, App. C. pp. D2-36.

employee be in possession of his maximum tideover benefits under the unemployment insurance fund. We should then at least be facing the fact that the annual wage must ultimately come out of production. We should also save the employee from the loss of unemployment compensation protection when the guarantee could not be sustained.

Suppose an employer has guaranteed 50 weeks of work, and he has no work at or before the end of the 30th week—that is, with a contract still having 20 weeks to run. If the annual wage is integrated with unemployment compensation, the employee's benefits will be drained out of the unemployment compensation fund throughout the twenty-week period. If the employee is out of work at the end of the guaranteed period, he may find himself stranded, without unemployment compensation credits. If, however, the employer is compelled to stay with the commitment that he has made, and then discharges the employee when the agreement runs out, the employee still has the full duration of his unemployment compensation benefits to look forward to while he is seeking another job or waiting to be re-employed. Certainly in most cases the employees would feel themselves cheated under an annual-wage agreement that meant the loss of opportunity to share in unemployment compensation benefits when the annual-wage contract expired.

Administratively, payment under annual-wage agreement by a specific employer and concurrent benefits under the public unemployment compensation fund would seem incompatible. Unemployment compensation is intended primarily to tide over the worker while he is in search of other employment. The worker must

accept other suitable employment available to him; otherwise he loses his unemployment compensation rights. The annual wage, on the other hand, is essentially a plan which attaches the employee to the company's pay roll as a member of the working force even when there is a lack of orders. If the employee under the pressure of the unemployment compensation requirements should take another job, he has thereby ended his attachment to his former employer and the guarantee that goes with it. If the guarantee remained in force while the employee was taking work elsewhere, the new employer would certainly be in an unfavorable position in trying to hold his new employee.

In the anomalous situation thus presented, the employees would understandably move toward an industry-wide arrangement under which their annual-wage privileges would carry over from employer to employer, if they had to be available for a job with another employer in order to get the unemployment compensation benefits as part of their guaranteed wage. Related complications developing out of the total pay-roll arrangement are not difficult to imagine. The whole idea of combining unemployment compensation with the annual wage would appear to weaken the emphasis on regularizing production, and to put it on persuasion for a formal guarantee, where it cannot be supported on its own productive base.

*Public versus private obligation.* From the standpoint of the economy as a whole, unavoidable idleness is carried as a legitimate social cost when the eligible employee is laid off and seeking other work. But it is frankly a partial tide-over arrangement, certainly not a substitute for full-time pay. To convert the moderate unemployment compensation benefits during enforced idleness into

an arrangement for 100 per cent compensation during underemployment seems of all possible schemes the least calculated to result in additional positive measures on the part of the employer to create productive employment matching his guarantee, or on the part of the employee to find new employment in justification of his pay check.<sup>11</sup>

Presumably, the greatest need for supplementation of company guarantees with unemployment compensation funds during enforced idleness would be in capital goods industries tending to have prolonged layoff periods. But that may be exactly the area of industry where the layoffs, if fully compensated with the help of unemployment insurance, could mean a prolonged freezing of workers in enforced idleness when their time should be used to better advantage elsewhere. The economic problem is essentially one of increasing total employment with adequate mobility and versatility of effort, rather than the subsidizing of idle time.<sup>12</sup>

Fuller use of public funds, beyond unemployment compensation benefits, is more properly reserved for major depressions, when a whole people must shoulder

<sup>11</sup> Since there is no tax on unemployment compensation benefits, the recipient of full pay partly defrayed from unemployment compensation funds, would actually have a greater net during unemployment than he could obtain from his pay on normal full-time work, which is fully taxable. Hence, the suggestion that under those conditions—if a man could retain his seniority while unemployed—men with the highest seniority would want to be the first rather than the last to be laid off.

<sup>12</sup> A few machine tool firms, by locating away from metropolitan centers, fit into a pattern where those who must be laid off can turn to work needed on their own small farms, or those of relatives, or become available on construction or public projects which may be speeded up when the community has plentiful labor. The dovetailing of complementary industries within the same general area is another reported device for maintaining production through planned mobility.

a situation that cannot be worked out by private resources or individual resourcefulness.

Among the measures designed to foster extension of the annual wage, the proposal for sharing payments—dividing annual-wage commitments between the employer and the unemployment compensation fund—is a straw in the wind. It suggests—in keeping with the history of other subsidies—that, should the annual-wage commitment become the vogue, pressures to conserve it for its own sake must be expected to ensue.

#### TAX POLICY TO SUPPORT THE ANNUAL WAGE

A less involved method of inducing the extension of annual-wage commitments than that discussed above is by way of tax exemption for private unemployment reserves. Under present conditions, contributions to employee pension, profit sharing, or sickness insurance funds may be treated as labor expense for tax purposes. But a fund set aside as a reserve against future pay-roll contingencies is taxable, and cannot be treated as expense except as it is actually paid out to employees. If reserve funds definitely earmarked for wage payment purposes were likewise treated as labor cost at the time such funds were set aside, the saving of up to 38 per cent in taxes on the reserves would allow for significant liberalization of the commitments of the firm. Partial tax recovery from such funds would come later, to the extent that additional incomes thus received by employees become taxable.

#### ANNUAL WAGE RELATED TO FULL-EMPLOYMENT PROGRAM

The subject of government fiscal policy to support the annual wage, opens up a field much broader than taxa-

tion of wage reserves. It has already been noted that any substantial additions to the total reserves of the nation, accumulated during high-employment periods and liquidated during periods of lower employment, would call forth active management of currency and credit by the treasury and the banking system. But that is only one of a number of respects in which public financial programs may be tied to proposals for generalizing the annual wage.

Advocates of the extension of the annual wage are generally aware that, to survive, it would have to carry itself with productive employment. The generalized annual wage is therefore often considered in conjunction with the general issue of "full employment." It seems to be taken for granted that if we planned for high levels of production and the corresponding high levels of employment, the annual wage could fit into the picture as the clinching factor in economic security. To that end, the program for extension of annual-wage guarantees across industry is linked to government measures to reinforce the guarantees by maintaining a general high level of demand for goods and services.

Roughly, the formula for the support program may be represented as follows:

Spread the guarantee of annual wages to induce maximum utilization of manpower; to  $x$  dollars of private spending thus generated and  $y$  dollars of normal governmental expenditures, add, by way of direct government investment as well as indirect forms of fiscal encouragement, enough  $z$  dollars to bring up the level of total demand to the desired goal—to a national product of  $x + y + z$ —sufficient to match the employment guarantees.

The question of how the government would attain that desired magnitude of total product is an involved problem, going beyond the scope of this analysis. Our interest here is rather in noting briefly the turn that a full-employment program might take when related to the guarantee of an annual wage. If the application of the "formula" as stated above were to mean that the  $z$  dollars of the national product added by the government could actually produce "full employment", the device of an annual-wage guarantee would seem superfluous. What is really meant, however, is that with a government plan successfully contributing toward a high level of employment, the national outlay in annual-wage guarantees to take care of frictional unemployment would be a manageable total as well as an employment stimulus.

A few observations suggest themselves as to the validity of that expectation.

To be sure, additions to the national product can be, and have at times been, attained by increasing government expenditures—especially under a war-directed economy, or when private investment and its support of production are low. (This is apart from any argument as to how long or under what conditions government funds might continue to be effective in producing the net increment.) It may also be taken as a truism that there would be less drain against annual-wage guarantee funds as a whole when levels of production are thus successfully maintained. But it does not follow that government efforts to add to the general total product would be better served by guarantees that tended to hold employees in their established occupations. With high employment successfully stimulated, the finding of jobs would be made

easier. But the continuity of one's accustomed job in a specific line—which is what the annual wage directly guarantees—would still be a problem within industries and within communities. Unless government stimulation of demand were bent on stabilizing the existing industrial pattern and steered its priming efforts accordingly, would there be greater security in governmental "full-employment" support against irregular or shifting labor demand than we have with the planning that is done as a matter of course in private enterprise?

We could have a 15 per cent increase in the demand for automobiles, refrigerators, and other durable lines and still have some acute problems arising in relation to the amount of specific annual-wage guarantees. Not every company concerned would share proportionately in that increase. It is well enough for a division in the Department of Commerce, as a general guide, to project a hypothetical increase in total product on the basis of a calculated percentage rise in each area of industry based upon its previous trend. But the fact remains, that when we change the total of the national income, we also change the proportions in which the total demand corresponding to that income is distributed among products and services. Firms of different size and financial resources and financial position will differ in the amounts by which they step up their quotas, or capture a share in the total demand. An increase in the use of refrigerators and newer heating equipment is no guarantee that the coal and ice man will be able to keep his ice routes busy and be in a better position to make good his guarantees. High turnover and high prosperity, as we have seen, usually go hand in hand.

If we put the stress upon guaranteed annual wages

across industry as an essential of security, we oblige the government to do something more than push for high totals of production in general. We must expect the government to prevent some firms from getting ahead of the procession, lest they cause underemployment in certain competing lines. The government must be prepared to reimburse the less-favored firms or industries which drain their reserves under the guaranteed annual wage, so that their employees will not need to move elsewhere.

The guaranteed annual wage is not a device for finding a job. It is a device for laying claim to a job. To the individual, holding on to his job appears not only desirable but urgent. It is questionable whether the total income security provided by a highly productive, dynamic society, can be reconciled with an emphasis on job-holding in the sense of staying on a given pay roll unrelated to its equivalent in product. Even if private initiative is supplemented with the liberal use of government stimuli, any general blanketing of industry with an annual wage creates vested rights that run counter to the attainment of the high production levels. Indeed, with high production, annual-wage guarantees yield in importance to job-finding opportunity, in assuring income.

A common fund of unemployment insurance under government auspices is rightly regarded as essential in an industrial economy, to care for the unavoidable hazards of unemployment. It represents the welfare minimum reserved for the employee and his family while he seeks re-employment. Beyond that, the contractual relationships between employers and employees in a given business, to have substance, must reflect the nature and capacity of that business. No denial is suggested of the

privilege of employees to seek maximum advantages consistent with the ability of the business to support them. Within this framework there is room for progress in such areas of employee welfare as dismissal pay related to length of service; employee savings and health insurance plans; job retraining programs, both in connection with unemployment insurance and individual firm problems. Arrangements between a firm and its employees in which tenure of employment is offered as an aid to employee morale or efficiency are as legitimate a subject of bargaining as any other measure aimed at improvement of the employee's status as breadwinner and personality. On the broader front of economic stability, it is assumed that the problem of reducing cyclical fluctuations must continue to receive major consideration at the level of national public policy.

But the route of economic progress under a system of private enterprise must logically lead from advances in the utilization of materials and services to the increase in real security. The spread of wage guarantees across industry would mean paper security if over any substantial period pay rolls did not truly reflect the production of the guarantor firms or industries.

A national employment program headed toward "full employment"—irrespective of the degree of government participation—can be successful to the extent that it opens new job opportunities. In that respect the drive toward full employment would be inconsistent with the widespread guarantee of the status quo in employer-employee relationships. The achievement of the latter could well involve the enlistment of the government in the role of supporting specific industries and individuals rather than expanding total employment opportunity.

## CHAPTER IX

### SUMMARY OF FINDINGS

The proposed program of annual-wage guarantees across basic industries, as a step toward increasing the postwar security of wage earners, has raised questions of economic policy to which the scattered, previous experiences of firms with individual employment stabilization plans are not applicable.

The study has not concerned itself primarily with individual employment and wage stabilization plans that confirm, in formal language, the degree of stability already achieved in a company's output and employment. It takes for granted the continuing obligation of management to eliminate hiring and firing practices which undermine the dignity and stability of the worker and his family.

The study has been concerned rather with current proposals to start with the guarantee of substantially full-time pay rolls as overhead, in the expectation that industry, having to meet these guarantees, would find ways to stabilize production and give greater security at higher levels of employment. It has attempted to see how business would meet this obligation—the impact on total employment, on competitive practices, and on business fluctuations that make for insecurity. It has also indicated some of the supplementary measures that may be required to give reality to the guarantees.

*Carryover of individual experience with guarantees.* Firms which have initiated wage-security plans offer a

mixed, though limited experience. The bulk of the plans initiated prior to 1930 did not survive, either because their commitments proved untenable, or the advantages proved negligible to employees. In general, the successful experiments are in companies with predictable seasonal or other short-term changes, where the pay checks of high and low weeks can be averaged, and where the production and marketing miscalculations of a current period can be corrected by adjustments in the succeeding period. Nearly all continuing plans are in nondurable consumer goods and services, in lines with peculiar advantages of stability, or with special employees apart from the main labor group.

The successful experience does not meet the situation of basic industries subject to cyclical fluctuations, where the timing and the duration of the decline are not predictable, and where the accumulation of inventories would intensify the market decline.

The results attained by a selected firm adjusting its operations to sustain regularity of employment for its own employees, do not justify the expectation of similar results if all members of an industry simultaneously followed the same practices. The flexibility characteristic of the isolated plan tends to disappear as a larger percentage of the firms move in a body to take on, hold down, or eliminate certain lines in order to sustain an even level of employment.

*Position of labor.* Organized labor, too, has had a mixed experience and is divided on the annual wage. The reactions of labor leaders range from active advocacy of the policy in newer unions and in those largely expanded during the war, to vigorous opposition among older unions and craft unions.

From the standpoint of employee security, the industry-wide assumption of annual-wage agreements challenges labor with the following problems and alternatives:

1. Where the workers are represented by a national industrial union, the general guarantee of an annual wage would logically presuppose agreement between labor and management on the aggregate man-hours of employment that an industry can support, and the number of workers among whom the guaranteed employment had to be allocated. The accuracy of that forecast would be a factor in determining the continuance of the guarantees and their relative value to different classes of workers.
2. Additional responsibilities would be placed upon the labor organization in determining the priorities against discharges and changes in eligibility for guarantees when an industry could no longer maintain its guarantees or where agreed limits of the guarantee fund have been reached. Stratification of employees by seniority rights would be accentuated.
3. Caution of individual firms against taking on additional employees, for fear of acquiring additional guaranteed overhead, would tend to freeze employment among the older generation of workers and slow down the opportunities for younger workers to break into the established labor force.
4. A substantial segment of total employment represents the sum of short-term jobs. Some industries have natural peaks that cannot economically be leveled. The extra crews released by such industry are vital to production in others. It is important to distinguish between two aspects of security: one is reflected in continuing em-

ployment on a given job; the other lies in the opportunity to find one's best niche as an employee without being barred by guarantees which solidify the existing labor force against outsiders.

5. The steadiness of employment in heavy industry—where insecurity becomes most acute—depends upon the freedom of movement of employees into lines of business for which new capacity is being produced to meet changes in consumer choices. In so far as guarantees checked mobility toward new or expanding areas of employment, they would reduce the opportunity of the critical capital goods areas to sustain employment.

*The varying production and employment pattern.* The annual-wage issue has its natural focus of interest in manufactures and related heavy industry, including construction, mineral extraction, and transportation. It is the area in which employees are largely wage workers on an hourly basis, and in which the widest fluctuations in employment occur.

Within the industrial segment, individual lines differ widely in their reactions to technological innovations, changes in consumer preference, social changes, or natural phenomena. Obsolescence and decline in some established industries have accompanied the rapid development in newer areas of production. There are marked differences in the amplitude of fluctuation between durables and nondurables; between producers' and consumers' goods; between standard and special lines within an industry. There is also wide variation in the degree to which specific lines of industry are sensitive to the pull of general business conditions.

While seasonal fluctuations are in the main calculable and capable of adjustment toward smoothing produc-

tion and employment, the longer term fluctuations—typical of producers' goods and heavy industry—are largely outside the control of a given firm or industry.

*Impact on business policy.* In meeting the overhead of the annual wage, the following tendencies in company policy appear as logical developments:

The labor force would be confined so far as possible to those who could be kept continuously employed. When the guaranteed workers are fully employed, the acceptance of additional orders would be conditioned by the prospects for absorbing further pay-roll obligations in guarantees to new employees. Whether orders were limited, or the guaranteed force put on overtime to avoid additional commitments, the pressure on prices would be upward. In a declining market, the need for additional business to meet the labor overhead would make for price concessions and lower prices. The spread between high and low prices would be accentuated as firms simultaneously employed aggressive tactics to meet their pay-roll commitments. Joint controls would be indicated, to keep these firms from getting out of hand.

The immediate effect of the wage-guarantee commitments is to postpone layoffs to the end of the guarantee period. Measures designed to prolong the employment of the guaranteed labor, through inventory-building or special concessions to attract new business, must be weighed against the effect of more drastic layoff notices and pay-roll reductions at the end of the guarantee period.

The advisability of smoothing out the guaranteed overhead, over the appropriate time period, would probably be recognized by setting up adequate liquid reserves to meet pay-roll contingencies. They might be treated

as a social cost to be borne by the consumer. If not borne by the consumer in higher prices, the wage reserves would be created by reducing surplus and dividends or outlays for capital equipment and expansion. The stronger firms and those in a position to administer prices would undoubtedly allow for such reserves. The smaller firms would as a rule be less able to set aside wage reserves. They would be under heavier pressure to meet pay-roll overhead with more severe competition for new business, increasing the prospect of business failures among submarginal firms.

An unfavorable experience under pay-roll guarantees is likely to build up support for price fixing and quota arrangements among the members of the industry, or the intervention of the government as a purchaser of supplies not otherwise marketable. Such efforts at mutual protection would have to be reconciled with our antitrust laws.

*Consumer demand and industrial employment.* The chief hope of the annual-wage guarantee as an aid to employment security lies in a faith that the guarantee of current pay rolls will stabilize consumer purchasing power and thereby sustain employment across all branches of industry. This expectation fails to take into account the wide variation among industries. It oversimplifies the facts of consumer behavior and the flow of consumer incomes, especially as to durable goods, where insecurity of employment is concentrated.

While aggregate pay rolls, consumption, and total production move generally in the same direction, the record shows that in sustaining high pay-roll levels, purchases of consumer durables are no more consistent than are business capital expenditures. Notably in the impor-

tant area of residential building, consumer expenditures declined continuously over the five years preceding the boom of 1929, when residential building was only one half as high as in 1924 and lower than in any year since 1922. This was in spite of the fact that industrial production and business capital formation were steadily rising and sustaining the upswing of the twenties.

Periods of heavy investment by consumers in durable goods set up higher instalment obligations for the families concerned, which modify the fractions of their incomes available for other commodities. Unless new consumers come along, and unless total production rises so that those who have tied up their incomes with durable goods can create and receive additional income to support their nondurable goods purchases as well, shifts in employment with declines from high levels in specific factories and commodities, are inevitable.

Guaranteed pay rolls and mass consumer power do not ensure crucial areas of capital goods production which depend upon new investment. Expanded investment may depend largely on new inventions and technology and on the prospect of modifying producers' or consumers' preferences, rather than on the incidence of current pay rolls or consumption. Foreign market expansion demands, in return, increased importation of equivalent quantities of goods and services; these may improve the total economy at the expense of pay rolls in specific areas of domestic industry.

*Other impacts on business structure.* Leveling of peaks and valleys in production of capital equipment and other investment goods would mean, ideally, the automatic transfer of workers from producers' to consumers' lines, to prevent excess capacity from building up beyond

current requirements; and, vice versa, the automatic return of labor to producers' lines as larger capital outlays are resumed.

The combination of factors entering into the maintenance of specific employer-employee commitments implies that to sustain wage guarantees across industry would require disciplining of consumers' choices so that they would purchase the kinds of goods for which sustained employment must be encouraged. On the producers' side, controls would be needed to prevent new industrial developments from entering into conflict with lines already obligated to continue their pay rolls.

If the support of existing pay rolls is to be the first consideration, first choice would have to be given to established businesses in absorbing competing lines or improved processes, so that such companies could allocate production in accordance with their pay-roll commitments. This would lead, logically, to enfranchisement of industrial monopolies having stability of employment for their respective labor forces as the primary goal.

*Tie-in with unemployment compensation.* The suggested integration of unemployment compensation funds with the annual-wage commitment, so that the employers' guarantee would supplement the social security payments, would introduce a conflict of objectives. Unemployment compensation represents our common responsibility to bear the social cost of unavoidable layoffs. It requires that the eligible beneficiaries seek other suitable employment and accept it when offered. It aids the removal of the employee from the business situation that cannot support him. Were unemployment compensation funds to be included as part of the guarantee payment, that would mean a public contribution to carry out a private contract between employer and employee. In

effect, it would bring unemployment compensation up to 100 per cent of full-time earnings while the employee was attached to a pay roll. It would, in the case of an extended layoff, leave the employee without any unemployment compensation benefits on which to fall back when his guaranteed employment ended. The public compensation program as a backlog for the workers seeking employment, should not be confused with terms of employment worked out between the employee and the employer.

*Essentials of security.* Few managements would deny that there is room for improvement in the design of production and marketing programs so that they may reflect a keener and more sympathetic insight into their effects on security and employment. But any general measures to secure particular employees in their established jobs have to be weighed against what must be given up in return, to see whether the net result is a higher and more equitably shared standard of living.

Included in the standard of living is the freedom of economic opportunity permitted to the job makers and the job seekers; also the degree of choice available to or desired by the consumers. How valuable these privileges are rated may depend upon the degree to which they are or are not already available. To the consumer who is still short of the basic necessities, security in the present job may be the primary consideration; discussion of progress beyond that point might appear academic. For the majority of Americans, however, stabilization of consumer purchases to conform with a predetermined pattern of employment overhead would probably seem a big price to pay in return for job stabilization. Investors and business owners may likewise differ as to what is of first importance; some are in search of "absolute

safety", while the others recognized that investment for safety alone would spell the decay of the enterprise element in the economic structure.

There are many stopping points between the extreme of laissez faire and the extreme of a completely planned economy. Some individual firms have found that they can give stability of employment as a matter of course. To them the announcement of an annual wage would be a mere formality. Others have made a positive effort to stabilize some of their operations and have successfully done so without jeopardizing the general competitive situation in their industry. Undoubtedly, more firms could enter upon programs of gradually enlarging their formal commitments without seriously cutting down the opportunities of employment for nonguaranteed outsiders. But a law of diminishing returns is bound to catch up with successive extensions of the scheme, to the point where business firms are preventing each other from moving ahead.

Obviously, the greatest difficulty in achieving stabilized pay rolls is in durable goods where production is in response to special orders for replacement or new business. To saddle those industries in advance with any substantial employment overhead would mean either (a) disproportionate price rises in durables generating resistance to investment, or (b) public programming of large sectors of the economy to match their commitments.

To start with the guarantee of annual wages as an obligation upon an industry which is not adequately prepared to meet the commitments would set into motion defensive measures tending to diminish rather than increase the opportunities for higher production and employment through the mechanism of an open market. To

guard against the market disturbances resulting from changes in investor preference or consumer preferences would require the disciplining of private enterprise with public controls of consumption, production, and income flows.

There is no assurance that the guarantee of pay roll tenure for individuals in their present jobs would work hand in hand with efforts to achieve "full employment." To achieve full employment presumes the opening up of new job opportunities in new or improved lines of endeavor. Indeed, a policy of encouraging the expansion of employment may find resistance in a program aimed at guaranteeing present persons in their present jobs. To protect a general pattern of wage guarantees would mean the placing of orders in the areas occupied by present job holders whether or not they represented the most productive—that is the most progressive—use of materials and man power.

A young and growing nation is marked by confidence in the ability of its individuals to create opportunities for expanding output and improving economic levels. What it seeks mainly to protect is the sporting chance—the freedom of opportunity to make the most of one's abilities. The emphasis on insurance of status is likely to develop as confidence in the rewards of individual enterprise gives way to the fear that there may not be enough to go around unless the shares in the total product are rationed. The general guarantee of jobs and pay rolls implies the general acceptance of fixed placements in a regulated economy. A basic decision to be made, before widespread guarantees are instituted in any but the already stable consumer lines, concerns the kind of economic order we are prepared to accept in order to ensure existing jobs and pay rolls.



## APPENDIX



**1. TOTAL NUMBER OF GUARANTEED WAGE OR EMPLOYMENT PLANS IN BUREAU OF LABOR STATISTICS SURVEY THAT WERE IN OPERATION EACH YEAR, 1893-45<sup>a</sup>**

| Year           | Number of plans in operation at the end of each year | Year                          | Number of plans in operation at the end of each year |
|----------------|--|-------------------------------|--|
| 1893.....      | 1  | 1929.....                     | 35   |
| 1894-95.....   | 2  | 1930.....                     | 36   |
| 1896-1904..... | 3  | 1931.....                     | 38   |
| 1905-11.....   | 4  | 1932.....                     | 41   |
| 1912.....      | 5  | 1933.....                     | 46   |
| 1913.....      | 6  | 1934.....                     | 148 <sup>b</sup>                                     |
| 1914-15.....   | 7  | 1935.....                     | 68   |
| 1916.....      | 8  | 1936.....                     | 79   |
| 1917.....      | 9  | 1937.....                     | 87   |
| 1918.....      | 10   | 1938.....                     | 107  |
| 1919.....      | 11   | 1939.....                     | 125  |
| 1920.....      | 15   | 1940.....                     | 138  |
| 1921.....      | 18   | 1941.....                     | 154  |
| 1922.....      | 19   | 1942.....                     | 166  |
| 1923.....      | 23   | 1943.....                     | 167  |
| 1924.....      | 26   | 1944.....                     | 183  |
| 1925.....      | 28   | 1945.....                     | 185  |
| 1926.....      | 29   | (Data not available—11 plans) | 196  |
| 1927.....      | 31   |                               |  |
| 1928.....      | 32   |                               |  |

<sup>a</sup> *Guaranteed Wages*, Report to the President by the Advisory Board, OWMR (1947), p. 295.

<sup>b</sup> Includes 96 plans initiated under the encouragement of the tax exemption provisions of the Wisconsin unemployment compensation law in 1934 and discontinued in 1935 when the tax exemption was estimated.

**2. NUMBER OF CURRENTLY OPERATING GUARANTEED WAGE OR EMPLOYMENT PLANS IN BUREAU OF LABOR STATISTICS SURVEY, BY TOTAL NUMBER OF WAGE EARNERS<sup>a</sup>**

| Total number of wage earners in establishment or establishments covered by plan | Number of currently operating plans |
|---|-------------------------------------|
| Total.....  | 196 <sup>b</sup>                    |
| Less than 25.....   | 64                                  |
| 25 to 49.....   | 29                                  |
| 50 to 74.....   | 13                                  |
| 75 to 99.....   | 5                                   |
| 100 to 249.....   | 23                                  |
| 250 to 499.....   | 14 <sup>c</sup>                     |
| 500 to 749.....   | 3                                   |
| 750 to 999.....   | 3                                   |
| 1,000 to 2,499.....   | 6 <sup>d</sup>                      |
| 2,500 to 4,999.....   | 6 <sup>d</sup>                      |
| 5,000 to 7,499.....   | 2                                   |
| 7,500 to 9,999.....   | 1                                   |
| 10,000 and over.....  | 3                                   |
| Total employment not available.....   | 24 <sup>d</sup>                     |

<sup>a</sup> *Guaranteed Wages*, Report to the President by the Advisory Board, OWMR (1947), p. 297.

<sup>b</sup> A guaranteed wage or employment plan embodied in a master contract between a trade association and a union is counted as a single plan, and is classified according to the total number of wage earners in all of the covered establishments. There are 10 such cases.

<sup>c</sup> Includes 1 master contract plan.

<sup>d</sup> Includes 7 master contract plans.

3. DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT,  
(In thousands)

| Industry                                  | Total,<br>All Size<br>Classes | Number of Persons Engaged,<br>in Firms with |                       |                       |                        |
|---|-------------------------------|---|-----------------------|-----------------------|------------------------|
|   |                               | 0<br>Em-<br>ployees                         | 1-3<br>Em-<br>ployees | 4-7<br>Em-<br>ployees | 8-19<br>Em-<br>ployees |
| TOTAL, ALL INDUSTRIES.....                | 28,463.8 <sup>b</sup>         | 1,632.1                                     | 3,134.0               | 1,805.8               | 2,018.3                |
| MINING.....                               | 790.1                         | 1.4   | 22.0                  | 25.2                  | 52.5                   |
| Metal and coal mining.....                | 569.6                         | .8  | 5.7                   | 6.8                   | 17.9                   |
| Crude petroleum and natural<br>gas.....   | 136.6                         | .3  | 13.0                  | 14.1                  | 20.7                   |
| Nonmetallic mining and<br>quarrying.....  | 83.9                          | .3  | 3.3                   | 4.3                   | 13.9                   |
| CONTRACT CONSTRUCTION.....                | 1,457.8                       | 113.9                                       | 134.8                 | 159.7                 | 198.4                  |
| MANUFACTURING.....                        | 11,270.6                      | 46.0  | 194.9                 | 188.3                 | 394.7                  |
| Food and kindred products.....            | 1,534.7                       | 11.9  | 66.9                  | 56.1                  | 69.0                   |
| Tobacco manufactures.....                 | 123.1                         | .1  | .6                    | .8                    | 1.4                    |
| Textile mill products.....                | 1,300.7                       | .4  | .8                    | 1.2                   | 5.7                    |
| Apparel, etc.....                         | 939.8                         | 2.1   | 9.2                   | 20.2                  | 63.2                   |
| Lumber and timber basic<br>products.....  | 460.6                         | 5.5   | 26.7                  | 22.1                  | 35.7                   |
| Furniture and finished lum-<br>ber.....   | 421.6                         | 3.0   | 6.6                   | 7.9                   | 21.8                   |
| Paper and allied products.....            | 290.3                         | .1  | .8                    | 1.5                   | 7.1                    |
| Printing, publishing, etc.....            | 618.7                         | 13.5  | 37.3                  | 29.0                  | 59.8                   |
| Chemicals and allied prod-<br>ucts.....   | 429.4                         | .2  | 3.7                   | 5.9                   | 15.8                   |
| Products of petroleum and<br>coal.....    | 416.2                         | ....  | .6                    | .7                    | 1.7                    |
| Rubber products.....                      | 183.0                         | .2  | 1.6                   | 1.4                   | 2.0                    |
| Leather and leather products.....         | 395.1                         | .2  | 1.3                   | 2.0                   | 5.6                    |
| Stone, clay and glass prod-<br>ucts.....  | 408.9                         | .3  | 3.7                   | 5.5                   | 14.2                   |
| Iron and steel and their<br>products..... | 1,290.1                       | .3  | 2.1                   | 6.3                   | 25.6                   |
| Transportation equipment.....             | 244.4                         | .1  | .5                    | .8                    | 4.4                    |
| Nonferrous metals.....                    | 259.8                         | .9  | 5.3                   | 7.9                   | 13.7                   |
| Electrical machinery.....                 | 436.2                         | .1  | .3                    | 1.0                   | 4.0                    |
| Machinery (except electrical).....        | 708.3                         | .5  | 6.3                   | 7.5                   | 19.1                   |
| Automobiles and equipment.....            | 498.4                         | .1  | .6                    | 1.0                   | 3.1                    |
| Miscellaneous manufacturing.....          | 311.3                         | 6.5   | 20.0                  | 9.5                   | 21.2                   |

<sup>a</sup> Adapted from U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, May 1944, p. 5. Size is measured in number of paid employees—not in terms of total employment including entrepreneurs and unpaid family workers.

<sup>b</sup> The comparable total from the labor force census is 28,025,480. The number of paid employees reporting to the Bureau of Old Age and Survivors Insurance in 1939 was 24,414,414. This plus entrepreneurs and unpaid family workers reported by the Census, gives a grand total of 28,582,385.

BY INDUSTRY AND SIZE OF FIRM—1939<sup>a</sup>  
(In thousands)

| Number of Persons Engaged,<br>in Firms with |                         |                           |                           |                               | Industry                             |
|---|-------------------------|---------------------------|---------------------------|-------------------------------|--------------------------------------|
| 20-49<br>Em-<br>ployees                     | 50-99<br>Em-<br>ployees | 100-249<br>Em-<br>ployees | 250-499<br>Em-<br>ployees | 500 or<br>More Em-<br>ployees |                                      |
| <b>2,103.3</b>                              | <b>1,814.6</b>          | <b>2,394.8</b>            | <b>2,071.9</b>            | <b>11,489.0</b>               | TOTAL, ALL INDUSTRIES                |
| 70.5  | 65.8                    | 99.5                      | 129.2                     | 324.0                         | MINING                               |
| 30.5  | 41.1                    | 78.1                      | 111.3                     | 277.4                         | Metal and coal mining                |
| 16.2  | 15.4                    | 10.7                      | 9.3                       | 36.9                          | Crude petroleum and natural<br>gas   |
| 23.8  | 9.3                     | 10.7                      | 8.6                       | 9.7                           | Nonmetallic mining and<br>quarrying  |
| <b>185.6</b>                                | <b>119.6</b>            | <b>153.5</b>              | <b>128.5</b>              | <b>263.8</b>                  | CONTRACT CONSTRUCTION                |
| <b>718.5</b>                                | <b>875.2</b>            | <b>1,271.1</b>            | <b>1,144.3</b>            | <b>6,437.6</b>                | MANUFACTURING                        |
| 81.8  | 84.6                    | 111.2                     | 130.9                     | 922.3                         | Food and kindred products            |
| 2.6   | 3.9                     | 4.6                       | 7.9                       | 101.2                         | Tobacco manufactures                 |
| 27.2  | 72.0                    | 173.9                     | 63.6                      | 955.9                         | Textile mill products                |
| 149.7                                       | 150.7                   | 166.0                     | 113.7                     | 265.0                         | Apparel, etc.                        |
| 70.7  | 58.5                    | 64.7                      | 60.3                      | 116.4                         | Lumber and timber basic<br>products  |
| 42.3  | 58.5                    | 92.9                      | 43.1                      | 145.5                         | Furniture and finished lum-<br>ber   |
| 16.9  | 47.5                    | 51.8                      | 32.7                      | 131.9                         | Paper and allied products            |
| 54.0  | 60.5                    | 56.4                      | 65.5                      | 242.7                         | Printing, publishing, etc.           |
| 31.7  | 46.8                    | 36.6                      | 48.2                      | 240.5                         | Chemicals and allied prod-<br>ucts   |
| 4.0   | 4.1                     | 9.9                       | 17.2                      | 378.0                         | Products of petroleum and<br>coal    |
| 5.1   | 7.4                     | 12.6                      | 12.7                      | 140.0                         | Rubber products                      |
| 16.3  | 29.6                    | 71.6                      | 55.1                      | 213.4                         | Leather and leather products         |
| 32.3  | 35.8                    | 54.8                      | 58.6                      | 203.7                         | Stone, clay and glass prod-<br>ucts  |
| 56.3  | 63.6                    | 156.1                     | 120.6                     | 859.2                         | Iron and steel and their<br>products |
| 5.6   | 8.0                     | 15.2                      | 15.5                      | 194.3                         | Transportation equipment             |
| 15.3  | 15.8                    | 24.4                      | 31.0                      | 145.5                         | Nonferrous metals                    |
| 11.0  | 19.3                    | 30.5                      | 33.4                      | 336.6                         | Electrical machinery                 |
| 43.0  | 46.4                    | 76.2                      | 180.9                     | 327.8                         | Machinery (except electrical)        |
| 6.9   | 8.9                     | 12.2                      | 13.8                      | 451.8                         | Automobiles and equipment            |
| 45.8  | 53.3                    | 49.5                      | 39.6                      | 65.9                          | Miscellaneous manufacturing          |

**DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT,**  
 (In thousands)

| Industry  | Total,<br>All Size<br>Classes | Number of Persons Engaged,<br>in Firms with |                       |                       |                        |
|---|-------------------------------|---|-----------------------|-----------------------|------------------------|
|   |                               | 0<br>Em-<br>ployees                         | 1-3<br>Em-<br>ployees | 4-7<br>Em-<br>ployees | 8-19<br>Em-<br>ployees |
| TRANSPORTATION, COMMUNICATION AND PUBLIC UTILITIES. | 2,968.0                       | 162.7                                       | 89.6                  | 72.3                  | 96.9                   |
| WHOLESALE TRADE.....                                | 1,572.2                       | 38.2  | 163.6                 | 144.4                 | 220.3                  |
| RETAIL TRADE.....                                   | 6,663.4                       | 956.9                                       | 1,739.6               | 853.4                 | 680.9                  |
| General Merchandise.....                            | 948.5                         | 18.8  | 37.3                  | 24.7                  | 23.3                   |
| General stores with food.....                       | 119.9                         | 28.2  | 36.4                  | 17.6                  | 12.5                   |
| Grocery with and without meats.....                 | 959.4                         | 276.6                                       | 288.4                 | 88.1                  | 46.6                   |
| Meat and seafood.....                               | 124.3                         | 25.6  | 47.6                  | 14.2                  | 7.5                    |
| Other food stores.....                              | 354.9                         | 100.4                                       | 96.4                  | 42.5                  | 22.5                   |
| Liquor.....   | 35.8                          | 7.7   | 19.3                  | 5.1                   | 2.4                    |
| Automobile dealers (new and used).....              | 356.1                         | 6.3   | 42.2                  | 55.8                  | 88.8                   |
| Other automotive.....                               | 91.8                          | 5.7   | 15.8                  | 11.4                  | 19.1                   |
| Apparel and accessories.....                        | 461.3                         | 34.0  | 90.1                  | 54.5                  | 47.6                   |
| Shoes.....  | 71.0                          | 6.4   | 15.7                  | 5.9                   | 5.9                    |
| Home furnishings, equipment.....                    | 173.8                         | 10.0  | 38.6                  | 31.6                  | 33.6                   |
| Appliances and radio.....                           | 44.9                          | 10.1  | 12.6                  | 6.7                   | 7.2                    |
| Drugs.....  | 247.7                         | 15.5  | 84.5                  | 57.4                  | 29.0                   |
| Hardware and farm implements.....                   | 120.9                         | 16.8  | 49.7                  | 27.3                  | 16.4                   |
| Lumber and building materials.....                  | 264.9                         | 9.2   | 37.4                  | 35.3                  | 43.3                   |
| Eating and drinking places.....                     | 1,181.1                       | 145.6                                       | 383.9                 | 232.9                 | 186.3                  |
| Filling stations.....                               | 534.9                         | 130.2                                       | 258.5                 | 54.2                  | 18.5                   |
| Other retail.....                                   | 572.2                         | 109.8                                       | 185.2                 | 88.2                  | 70.4                   |
| FINANCE, INSURANCE AND REAL ESTATE.....             | 1,340.0                       | 125.6                                       | 241.1                 | 138.9                 | 151.8                  |
| SERVICE INDUSTRIES.....                             | 2,645.4                       | 399.7                                       | 579.8                 | 223.6                 | 222.8                  |
| Hotels, etc.....                                    | 450.7                         | 8.3   | 40.1                  | 30.0                  | 44.3                   |
| Laundries, etc.....                                 | 509.3                         | 58.1  | 71.5                  | 31.9                  | 40.8                   |
| Barber and beauty shops.....                        | 407.1                         | 123.9                                       | 208.7                 | 43.4                  | 18.1                   |
| Other personal services.....                        | 179.2                         | 70.2  | 67.1                  | 23.2                  | 11.6                   |
| Business services.....                              | 342.4                         | 13.1  | 28.1                  | 19.5                  | 25.0                   |
| Automobile repair.....                              | 163.5                         | 48.9  | 74.5                  | 25.3                  | 6.1                    |
| Miscellaneous repair.....                           | 128.1                         | 64.5  | 39.8                  | 7.4                   | 4.3                    |
| Amusements.....                                     | 464.5                         | 12.7  | 50.0                  | 42.9                  | 72.6                   |

BY INDUSTRY AND SIZE OF FIRM—1939—*Continued*

(In thousands)

| Number of Persons Engaged,<br>in Firms with |                         |                           |                           |                               | Industry  |
|---|-------------------------|---------------------------|---------------------------|-------------------------------|---|
| 20-49<br>Em-<br>ployees                     | 50-99<br>Em-<br>ployees | 100-249<br>Em-<br>ployees | 250-499<br>Em-<br>ployees | 500 or<br>More Em-<br>ployees |   |
| 121.3                                       | 96.0                    | 147.6                     | 123.3                     | 2,058.3                       | TRANSPORTATION, COMMUNICA-<br>TION AND PUBLIC UTILITIES |
| 237.6                                       | 148.6                   | 194.2                     | 82.0                      | 343.3                         | WHOLESALE TRADE   |
| 444.1                                       | 234.3                   | 238.1                     | 230.0                     | 1,286.1                       | RETAIL TRADE  |
| 21.9  | 42.8                    | 69.1                      | 101.6                     | 609.0                         | General Merchandise                                     |
| 6.5   | 1.3                     | 1.7                       | 2.1                       | 13.6                          | General stores with food                                |
| 29.2  | 18.4                    | 19.0                      | 22.4                      | 170.7                         | Grocery with and without<br>meats                       |
| 4.7   | 3.1                     | 3.0                       | 3.1                       | 15.5                          | Meat and seafood  |
| 13.3  | 10.5                    | 9.0                       | 7.9                       | 52.4                          | Other food stores                                       |
| .9  | .4                      | .....                     | .....                     | .....                         | Liquor  |
| 86.9  | 31.7                    | 12.5                      | 8.6                       | 23.3                          | Automobile dealers (new and<br>used)                    |
| 17.6  | 11.8                    | 2.9                       | 1.7                       | 5.8                           | Other automotive  |
| 37.1  | 19.3                    | 28.5                      | 24.1                      | 126.1                         | Apparel and accessories                                 |
| 4.0   | 3.9                     | 4.6                       | 5.2                       | 19.4                          | Shoes   |
| 24.9  | 12.8                    | 7.3                       | 3.4                       | 11.6                          | Home furnishings, equip-<br>ment                        |
| 5.9   | 1.2                     | 1.2                       | .....                     | .....                         | Appliances and radio                                    |
| 8.0   | 3.7                     | 10.1                      | 6.5                       | 33.0                          | Drugs   |
| 6.4   | 2.5                     | 1.8                       | .....                     | .....                         | Hardware and farm imple-<br>ments                       |
| 31.1  | 10.7                    | 16.6                      | 13.4                      | 67.9                          | Lumber and building ma-<br>terials                      |
| 97.5  | 34.6                    | 25.1                      | 13.1                      | 62.1                          | Eating and drinking places                              |
| 7.1   | 2.9                     | 12.9                      | 7.9                       | 42.7                          | Filling stations  |
| 41.1  | 22.7                    | 12.8                      | 9.0                       | 33.0                          | Other retail  |
| 142.1                                       | 95.9                    | 120.5                     | 87.5                      | 236.6                         | FINANCE, INSURANCE AND REAL<br>ESTATE                   |
| 183.6                                       | 179.2                   | 170.3                     | 147.1                     | 539.3                         | SERVICE INDUSTRIES                                      |
| 35.9  | 35.8                    | 50.3                      | 62.4                      | 143.6                         | Hotels, etc.  |
| 66.3  | 59.9                    | 49.5                      | 32.4                      | 98.9                          | Laundries, etc.   |
| 5.2   | 3.3                     | 2.8                       | 1.7                       | .....                         | Barber and beauty shops                                 |
| 3.4   | 2.3                     | 2.0                       | .....                     | .....                         | Other personal services                                 |
| 23.9  | 22.5                    | 42.8                      | 31.7                      | 135.8                         | Business services                                       |
| 6.3   | 1.8                     | .6                        | .....                     | .....                         | Automobile repair                                       |
| 1.8   | 1.4                     | 1.4                       | .....                     | 5.8                           | Miscellaneous repair                                    |
| 40.8  | 52.2                    | 20.9                      | 17.2                      | 155.2                         | Amusements  |

4. EMPLOYMENT OF THE LABOR FORCE, 1900-44<sup>a</sup>  
(In thousands)

| Year | Grand Total | Agriculture | Forestry and Fishing | Industry |                        |               |              | Trade Distribution and Finance | Service <sup>b</sup> and Miscellaneous Industries |
|------|-------------|-------------|----------------------|----------|------------------------|---------------|--------------|--------------------------------|---|
|      |             |             |                      | Total    | Extraction of Minerals | Manufacturing | Construction |                                |   |
| 1900 | 27,378      | 9,552       | 166                  | 10,013   | 653                    | 6,090         | 1,639        | 1,355                          | 3,224   |
| 1901 | 28,238      | 9,481       | 175                  | 10,617   | 703                    | 6,212         | 1,954        | 1,448                          | 3,373   |
| 1902 | 30,405      | 10,145      | 183                  | 11,745   | 734                    | 6,503         | 2,614        | 1,570                          | 3,520   |
| 1903 | 30,319      | 10,117      | 188                  | 11,493   | 834                    | 6,714         | 1,962        | 1,624                          | 3,580   |
| 1904 | 31,175      | 10,587      | 195                  | 11,599   | 840                    | 6,754         | 1,954        | 1,659                          | 3,730   |
| 1905 | 33,032      | 10,795      | 197                  | 12,721   | 949                    | 7,278         | 2,285        | 1,772                          | 437   |
| 1906 | 34,790      | 11,246      | 207                  | 13,604   | 971                    | 7,666         | 2,567        | 1,918                          | 482   |
| 1907 | 34,875      | 11,064      | 209                  | 13,755   | 1,100                  | 7,935         | 2,332        | 1,876                          | 512   |
| 1908 | 34,284      | 11,413      | 199                  | 12,906   | 994                    | 7,431         | 2,143        | 1,800                          | 538   |
| 1909 | 36,735      | 11,599      | 211                  | 14,384   | 1,103                  | 8,446         | 2,333        | 1,933                          | 569   |
| 1910 | 37,580      | 11,610      | 214                  | 14,965   | 1,168                  | 8,990         | 2,177        | 2,015                          | 615   |
| 1911 | 37,097      | 11,493      | 216                  | 14,591   | 1,144                  | 8,628         | 2,131        | 2,029                          | 659   |
| 1912 | 38,169      | 11,473      | 230                  | 15,273   | 1,181                  | 8,909         | 2,374        | 2,112                          | 697   |
| 1913 | 38,482      | 11,451      | 233                  | 15,330   | 1,253                  | 9,099         | 2,126        | 2,123                          | 729   |
| 1914 | 37,575      | 11,404      | 228                  | 14,507   | 1,132                  | 8,769         | 1,801        | 2,061                          | 744   |
| 1915 | 37,728      | 11,371      | 225                  | 14,489   | 1,144                  | 8,911         | 1,644        | 2,035                          | 755   |
| 1916 | 40,127      | 11,382      | 239                  | 16,019   | 1,270                  | 10,184        | 1,694        | 2,072                          | 799   |
| 1917 | 42,685      | 11,161      | 228                  | 17,518   | 1,357                  | 11,436        | 1,722        | 2,172                          | 831   |
| 1918 | 44,187      | 10,731      | 214                  | 17,716   | 1,341                  | 11,446        | 1,767        | 2,311                          | 851   |
| 1919 | 42,029      | 10,489      | 229                  | 17,237   | 1,131                  | 10,989        | 1,808        | 2,432                          | 877   |

|      |        |        |     |        |       |        |       |       |       |       |        |
|------|--------|--------|-----|--------|-------|--------|-------|-------|-------|-------|--------|
| 1920 | 41,339 | 10,718 | 236 | 17,362 | 1,232 | 11,013 | 1,582 | 2,603 | 932   | 5,643 | 7,380  |
| 1921 | 37,691 | 10,751 | 202 | 14,440 | 959   | 8,599  | 1,704 | 2,265 | 913   | 5,360 | 6,938  |
| 1922 | 40,049 | 10,766 | 233 | 15,828 | 954   | 9,391  | 2,311 | 2,232 | 940   | 5,935 | 7,287  |
| 1923 | 43,011 | 10,697 | 262 | 17,917 | 1,251 | 10,592 | 2,591 | 2,479 | 1,004 | 6,377 | 7,758  |
| 1924 | 42,515 | 10,662 | 255 | 17,381 | 1,135 | 9,896  | 2,897 | 2,413 | 1,040 | 6,400 | 7,817  |
| 1925 | 44,192 | 10,725 | 266 | 18,140 | 1,120 | 10,222 | 3,279 | 2,453 | 1,066 | 6,892 | 8,169  |
| 1926 | 45,498 | 10,801 | 260 | 18,708 | 1,198 | 10,386 | 3,497 | 2,523 | 1,104 | 7,054 | 8,675  |
| 1927 | 45,319 | 10,519 | 253 | 18,388 | 1,122 | 10,164 | 3,468 | 2,508 | 1,126 | 7,105 | 9,054  |
| 1928 | 46,057 | 10,552 | 252 | 18,377 | 1,053 | 10,312 | 3,438 | 2,431 | 1,143 | 7,444 | 9,432  |
| 1929 | 47,925 | 10,539 | 267 | 19,097 | 1,067 | 11,059 | 3,340 | 2,465 | 1,167 | 8,007 | 10,015 |
| 1930 | 46,081 | 11,172 | 221 | 17,023 | 973   | 9,770  | 2,842 | 2,287 | 1,151 | 7,802 | 9,599  |
| 1931 | 42,530 | 11,157 | 160 | 14,520 | 825   | 8,423  | 2,225 | 2,006 | 1,041 | 7,300 | 9,134  |
| 1932 | 38,727 | 11,068 | 138 | 11,978 | 668   | 7,348  | 1,312 | 1,719 | 932   | 6,779 | 8,510  |
| 1933 | 38,827 | 11,027 | 157 | 12,285 | 677   | 7,979  | 1,114 | 1,656 | 858   | 6,728 | 8,378  |
| 1934 | 41,474 | 10,855 | 177 | 14,097 | 794   | 9,179  | 1,518 | 1,724 | 883   | 7,097 | 8,988  |
| 1935 | 42,653 | 11,130 | 192 | 14,541 | 798   | 9,757  | 1,344 | 1,757 | 885   | 7,167 | 9,355  |
| 1936 | 44,830 | 11,037 | 212 | 16,152 | 825   | 10,485 | 2,014 | 1,905 | 922   | 7,349 | 9,779  |
| 1937 | 46,279 | 10,884 | 227 | 17,142 | 865   | 11,361 | 1,924 | 2,016 | 975   | 7,549 | 10,154 |
| 1938 | 43,416 | 10,794 | 201 | 14,904 | 750   | 9,538  | 1,875 | 1,799 | 942   | 7,317 | 9,865  |
| 1939 | 44,993 | 10,739 | 198 | 15,639 | 707   | 10,517 | 1,610 | 1,871 | 934   | 7,511 | 10,537 |
| 1940 | 46,683 | 10,580 | 208 | 16,854 | 756   | 11,288 | 1,907 | 1,948 | 956   | 7,631 | 10,837 |
| 1941 | 51,434 | 10,355 | 215 | 19,717 | 758   | 13,198 | 2,612 | 2,135 | 1,015 | 7,843 | 11,590 |
| 1942 | 55,762 | 10,392 | 209 | 21,349 | 780   | 14,632 | 2,624 | 2,276 | 1,037 | 7,633 | 12,418 |
| 1943 | 62,026 | 10,264 | 188 | 22,167 | 702   | 16,205 | 1,764 | 2,476 | 1,021 | 7,479 | 13,000 |
| 1944 | 63,308 | 10,030 | 173 | 21,325 | 642   | 15,437 | 1,369 | 2,932 | 946   | 7,484 | 12,921 |

<sup>a</sup> National Industrial Conference Board, *Economic Almanac, 1945-46*, pp. 34-35.

<sup>b</sup> Excluding military forces from 1930 on.

**5. PAY ROLL IN MANUFACTURING AND MINING**  
 (In millions of dollars)

I. SALARIES

| Industrial Division  | 1929    | 1930    | 1931    | 1932    | 1933    | 1934    | 1935    | 1936    | 1937    | 1938    | 1939    |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Manufacturing:</b>  |         |         |         |         |         |         |         |         |         |         |         |
| Food and kindred products . . . . .  | 645.6   | 640.4   | 575.3   | 484.8   | 490.0   | 526.8   | 561.0   | 605.3   | 645.2   | 605.3   | 644.0   |
| Tobacco manufactures . . . . .   | 38.8    | 39.2    | 32.8    | 23.9    | 19.1    | 20.8    | 19.7    | 22.2    | 21.8    | 22.7    | 22.7    |
| Textile mill products . . . . .  | 327.6   | 297.1   | 267.6   | 195.7   | 201.4   | 215.9   | 225.2   | 241.0   | 243.8   | 207.1   | 215.0   |
| Apparel and other finished fabric products . . . . .                                   | 317.0   | 291.0   | 243.8   | 180.6   | 178.5   | 191.2   | 199.2   | 219.1   | 223.6   | 224.3   | 229.2   |
| Lumber and timber basic products . . . . .   | 147.0   | 126.2   | 82.0    | 56.5    | 53.6    | 58.9    | 64.8    | 74.7    | 85.4    | 82.6    | 82.9    |
| Furniture and finished lumber products . . . . .                                       | 170.1   | 152.5   | 125.9   | 92.1    | 80.9    | 81.8    | 88.7    | 105.5   | 117.3   | 123.9   | 127.6   |
| Paper and allied products . . . . .  | 140.8   | 140.0   | 128.5   | 105.5   | 103.8   | 116.5   | 117.3   | 138.8   | 133.6   | 135.6   | 135.6   |
| Printing, publishing, and allied industries . . . . .                                  | 600.6   | 626.1   | 531.8   | 424.9   | 365.9   | 402.6   | 423.2   | 460.1   | 510.5   | 496.0   | 496.2   |
| Chemicals and allied products . . . . .  | 319.6   | 310.7   | 272.2   | 216.0   | 206.6   | 236.3   | 246.3   | 267.8   | 298.4   | 295.7   | 298.5   |
| Products of petroleum and coal . . . . .   | 74.2    | 79.3    | 66.2    | 55.4    | 47.9    | 54.9    | 63.8    | 62.6    | 72.2    | 73.1    | 72.4    |
| Rubber products . . . . .  | 78.9    | 72.9    | 57.3    | 47.7    | 44.1    | 54.2    | 51.7    | 56.5    | 67.2    | 65.0    | 65.5    |
| Leather and leather products . . . . .   | 118.3   | 108.5   | 91.8    | 73.8    | 74.0    | 75.3    | 77.8    | 82.3    | 85.1    | 80.3    | 81.1    |
| Stone, clay, and glass products . . . . .  | 177.1   | 166.4   | 132.8   | 94.7    | 82.5    | 89.7    | 100.0   | 113.7   | 130.2   | 127.3   | 133.5   |
| Iron and steel and their products, including ordnance . . . . .                        | 455.6   | 470.7   | 361.5   | 248.5   | 212.9   | 261.3   | 289.6   | 348.0   | 418.3   | 377.6   | 409.2   |
| Nonferrous metals and products . . . . .   | 148.5   | 140.1   | 115.7   | 77.3    | 70.7    | 82.8    | 92.2    | 105.4   | 124.5   | 114.4   | 122.6   |
| Machinery (except electrical) . . . . .  | 447.5   | 462.8   | 334.5   | 230.0   | 205.4   | 251.8   | 281.1   | 333.9   | 400.4   | 351.7   | 377.4   |
| Electrical machinery . . . . .   | 240.8   | 220.9   | 164.4   | 100.9   | 105.8   | 133.4   | 143.0   | 170.8   | 212.3   | 188.3   | 188.7   |
| Transportation equipment (except auto), Automobiles and automobile equipment . . . . . | 67.2    | 71.0    | 57.6    | 39.3    | 30.8    | 41.5    | 42.7    | 52.5    | 72.2    | 67.0    | 77.5    |
| Miscellaneous manufacturing industries . . . . .                                       | 172.3   | 154.2   | 123.2   | 86.5    | 73.0    | 88.0    | 93.4    | 108.1   | 141.6   | 134.0   | 151.6   |
| Total . . . . .  | 4,864.5 | 4,743.3 | 3,912.5 | 2,938.1 | 2,744.3 | 3,094.2 | 3,303.2 | 3,690.5 | 4,158.9 | 3,906.7 | 4,075.2 |
| <b>Mining and Quarrying:</b>   |         |         |         |         |         |         |         |         |         |         |         |
| Metals . . . . .   | 24.5    | 24.1    | 18.3    | 11.5    | 10.7    | 12.8    | 16.4    | 21.3    | 28.7    | 24.7    | 26.4    |
| Coal:  |         |         |         |         |         |         |         |         |         |         |         |
| Anthracite . . . . .   | 21.0    | 21.0    | 20.0    | 16.0    | 14.0    | 15.0    | 15.0    | 14.0    | 13.0    | 12.0    |         |
| Bituminous . . . . .   | 59.0    | 50.0    | 43.0    | 32.0    | 29.0    | 36.0    | 39.0    | 43.0    | 43.0    | 44.0    |         |
| Other nonmetals . . . . .  | 28.0    | 29.1    | 24.2    | 17.5    | 15.0    | 16.1    | 16.7    | 18.9    | 20.4    | 17.5    | 19.0    |
| Total . . . . .  | 132.5   | 124.2   | 105.5   | 77.0    | 68.7    | 79.9    | 87.1    | 98.2    | 110.1   | 98.2    | 101.4   |

## PAY-ROLL IN MANUFACTURING AND MINING—Continued

## II. WAGES

| Industrial Division  | 1929     | 1930    | 1931    | 1932    | 1933    | 1934    | 1935    | 1936    | 1937    | 1938    | 1939    |
|--|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Manufacturing:</b>                                      |          |         |         |         |         |         |         |         |         |         |         |
| Food and kindred products.....                             | 895.7    | 856.5   | 730.5   | 595.0   | 624.2   | 777.7   | 804.2   | 865.0   | 981.5   | 923.1   | 944.2   |
| Tobacco manufacturers.....                                 | 94.6     | 69.4    | 55.7    | 50.9    | 58.5    | 59.4    | 63.2    | 70.3    | 67.0    | 69.4    |         |
| Textile mill products.....                                 | 1,080.8  | 861.7   | 761.3   | 546.0   | 664.2   | 756.0   | 844.5   | 878.4   | 968.5   | 769.3   | 912.0   |
| Apparel and other finished fabric products.....            | 688.3    | 583.0   | 503.6   | 353.3   | 366.0   | 469.0   | 547.7   | 585.7   | 602.7   | 547.8   | 657.2   |
| Lumber and timber basic products.....                      | 398.9    | 214.4   | 115.4   | 139.3   | 185.5   | 225.3   | 291.5   | 342.8   | 379.5   | 315.7   |         |
| Furniture and finished products.....                       | 394.9    | 297.2   | 229.8   | 140.0   | 151.1   | 211.7   | 211.6   | 296.8   | 225.3   | 225.3   | 276.5   |
| Paper and allied products.....                             | 298.5    | 281.3   | 229.5   | 173.3   | 181.5   | 222.1   | 247.8   | 275.2   | 327.1   | 284.5   | 317.9   |
| Printing, publishing, and allied industries.....           | 636.4    | 616.3   | 533.9   | 412.9   | 353.2   | 407.2   | 443.9   | 483.4   | 530.2   | 486.0   | 495.6   |
| Chemical and allied products.....                          | 352.7    | 318.1   | 262.2   | 201.4   | 219.7   | 264.8   | 284.6   | 310.4   | 381.4   | 332.3   | 376.6   |
| Products of petroleum and coal.....                        | 177.8    | 174.1   | 136.9   | 111.6   | 111.2   | 130.5   | 140.8   | 152.5   | 186.0   | 187.1   | 194.3   |
| Rubber products.....                                       | 207.3    | 152.5   | 112.6   | 85.2    | 99.1    | 124.8   | 133.7   | 156.4   | 171.3   | 123.2   | 164.3   |
| Leather and leather products.....                          | 359.5    | 299.0   | 262.1   | 209.2   | 222.5   | 266.0   | 279.7   | 282.5   | 311.3   | 269.4   | 294.8   |
| Stone, clay, and glass products.....                       | 444.2    | 363.6   | 254.0   | 145.0   | 146.1   | 197.1   | 230.9   | 289.4   | 355.5   | 279.5   | 335.3   |
| Iron and steel and their products, including ordnance..... | 1,645.5  | 1,307.9 | 837.2   | 462.9   | 585.5   | 800.7   | 991.2   | 1,290.2 | 1,661.0 | 1,006.5 | 1,367.2 |
| Nonferrous metals and products.....                        | 390.1    | 276.5   | 205.6   | 128.2   | 134.9   | 181.9   | 224.8   | 270.4   | 340.8   | 241.0   | 307.6   |
| Machinery (except electrical).....                         | 979.2    | 736.1   | 456.1   | 269.8   | 299.8   | 442.3   | 559.1   | 717.6   | 967.5   | 629.8   | 758.0   |
| Electrical machinery.....                                  | 474.2    | 372.4   | 239.6   | 137.5   | 145.4   | 207.3   | 241.0   | 302.6   | 408.0   | 260.8   | 341.7   |
| Transportation equipment (except auto).....                | 201.8    | 189.9   | 113.6   | 80.7    | 64.3    | 95.1    | 106.5   | 158.6   | 211.2   | 162.7   | 241.0   |
| Automobiles and automobile equipment.....                  | 733.1    | 431.8   | 350.5   | 255.1   | 252.1   | 438.1   | 545.4   | 619.7   | 756.1   | 420.6   | 609.7   |
| Miscellaneous manufacturing industries.....                | 277.9    | 232.7   | 178.6   | 118.7   | 124.2   | 158.8   | 182.9   | 210.5   | 243.6   | 212.3   | 264.5   |
| Total.....   | 10,870.5 | 8,833.4 | 6,681.5 | 4,596.8 | 4,934.9 | 6,354.9 | 7,305.1 | 8,468.9 | 9,112.9 | 7,709.7 | 9,243.5 |
| <b>Mining and Quarrying:</b>                               |          |         |         |         |         |         |         |         |         |         |         |
| Metals.....  | 170.5    | 136.8   | 81.1    | 40.3    | 39.9    | 53.2    | 69.5    | 102.0   | 160.1   | 109.7   | 125.4   |
| Coal:  |          |         |         |         |         |         |         |         |         |         |         |
| Anthracite.....  | 230.0    | 221.0   | 177.0   | 129.0   | 113.0   | 138.0   | 120.0   | 118.0   | 117.0   | 100.0   | 107.0   |
| Bituminous.....  | 576.0    | 478.0   | 353.0   | 238.0   | 262.0   | 369.0   | 403.0   | 483.0   | 527.0   | 413.0   | 432.0   |
| Other nonmetals.....                                       | 92.6     | 78.6    | 56.6    | 33.0    | 30.0    | 38.1    | 41.9    | 56.1    | 78.8    | 56.0    | 64.4    |
| Total.....   | 1,069.1  | 914.4   | 667.7   | 440.3   | 444.9   | 598.3   | 634.4   | 759.1   | 872.9   | 678.7   | 728.8   |

**6. EMPLOYEES IN MANUFACTURING AND MINING<sup>a</sup>**  
 (In thousands)

I. SALARIED EMPLOYEES

| Industrial Division   | 1929    | 1930    | 1931    | 1932    | 1933    | 1934    | 1935    | 1936    | 1937    | 1938    | 1939    |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Manufacturing:  |         |         |         |         |         |         |         |         |         |         |         |
| Food and kindred products .....                             | 300.2   | 276.0   | 250.3   | 269.9   | 290.6   | 305.7   | 315.7   | 332.4   | 331.1   | 334.1   |         |
| Tobacco manufactures .....                                  | 14.7    | 11.7    | 8.7     | 6.5     | 5.3     | 7.0     | 7.4     | 8.1     | 8.2     | 8.5     |         |
| Textile mill products .....                                 | 101.3   | 90.5    | 87.9    | 69.8    | 74.5    | 84.2    | 88.6    | 89.3    | 86.3    | 88.7    |         |
| Apparel and other finished fabric products .....            | 124.1   | 121.5   | 104.4   | 88.4    | 84.2    | 91.7    | 94.7    | 98.0    | 102.1   | 98.6    | 101.5   |
| Lumber and timber basic products .....                      | 59.5    | 50.0    | 34.1    | 26.7    | 28.8    | 31.4    | 34.7    | 37.9    | 41.2    | 40.5    | 40.8    |
| Furniture and finished lumber products .....                | 64.4    | 59.8    | 52.2    | 43.5    | 42.3    | 42.5    | 46.7    | 50.8    | 55.2    | 54.2    | 54.7    |
| Paper and allied products .....                             | 46.8    | 48.1    | 47.1    | 42.9    | 42.7    | 48.3    | 47.2    | 49.3    | 51.9    | 51.6    | 51.7    |
| Printing, publishing, and allied industries .....           | 238.6   | 249.5   | 217.8   | 193.2   | 173.6   | 189.7   | 192.1   | 211.7   | 234.7   | 233.5   | 233.8   |
| Chemicals and allied products .....                         | 118.8   | 117.5   | 101.7   | 87.8    | 86.8    | 99.7    | 104.7   | 110.1   | 118.7   | 117.2   | 118.3   |
| Production of petroleum and coal .....                      | 24.9    | 24.5    | 21.3    | 20.2    | 16.7    | 20.1    | 23.9    | 24.5    | 25.7    | 25.4    | 25.7    |
| Rubber products .....                                       | 32.2    | 31.1    | 24.5    | 22.2    | 21.9    | 25.6    | 23.6    | 25.0    | 28.6    | 27.7    | 28.0    |
| Leather and leather products .....                          | 43.1    | 40.6    | 34.4    | 30.7    | 30.7    | 32.7    | 32.9    | 33.3    | 34.6    | 34.1    | 35.1    |
| Stone, clay and glass products .....                        | 64.3    | 62.2    | 52.4    | 39.6    | 37.4    | 43.7    | 46.7    | 48.8    | 54.6    | 54.8    | 56.2    |
| Iron and steel and their products, including ordnance ..... | 154.7   | 169.9   | 142.3   | 113.5   | 97.6    | 114.0   | 122.7   | 137.5   | 158.8   | 153.9   | 162.3   |
| Nonferrous metals and products .....                        | 54.7    | 51.8    | 45.9    | 35.0    | 32.5    | 37.8    | 42.7    | 45.7    | 50.9    | 49.2    | 50.8    |
| Machinery (except electrical) .....                         | 167.0   | 171.0   | 142.8   | 105.2   | 99.8    | 121.3   | 135.5   | 148.5   | 170.7   | 159.1   | 156.3   |
| Electrical machinery .....                                  | 96.0    | 84.1    | 64.7    | 45.9    | 48.9    | 60.5    | 62.0    | 70.6    | 84.5    | 78.8    | 77.4    |
| Transportation equipment (except auto.) .....               | 25.0    | 27.4    | 23.6    | 15.8    | 13.3    | 18.3    | 19.8    | 23.9    | 30.9    | 29.5    | 32.9    |
| Automobiles and automobile equipment .....                  | 58.4    | 54.5    | 44.1    | 36.8    | 37.1    | 45.4    | 46.6    | 52.8    | 64.2    | 54.2    | 60.7    |
| Miscellaneous manufacturing industries .....                | 68.5    | 69.6    | 61.3    | 48.1    | 46.3    | 53.9    | 59.6    | 62.1    | 66.4    | 62.1    | 63.2    |
| Total .....   | 1,857.2 | 1,836.0 | 1,587.2 | 1,322.1 | 1,290.3 | 1,458.0 | 1,537.4 | 1,642.4 | 1,803.5 | 1,750.0 | 1,780.7 |
| Mining and Quarrying:                                       |         |         |         |         |         |         |         |         |         |         |         |
| Coal:   |         |         |         |         |         |         |         |         |         |         |         |
| Anthracite .....  | 8.4     | 8.6     | 8.1     | 6.8     | 6.7     | 6.9     | 6.9     | 6.8     | 6.6     | 5.9     | 5.4     |
| Bituminous .....  | 24.0    | 22.0    | 20.0    | 17.0    | 16.0    | 19.0    | 19.0    | 20.0    | 21.0    | 20.0    | 20.0    |
| Other nonmetals .....                                       | 10.3    | 11.0    | 9.4     | 7.7     | 7.5     | 7.4     | 7.2     | 7.6     | 7.7     | 7.5     | 8.0     |
| Totals .....  | 53.5    | 50.7    | 44.6    | 36.5    | 35.4    | 39.1    | 40.0    | 42.9    | 46.1    | 42.9    | 43.5    |

EMPLOYEES IN MANUFACTURING AND MINING—Continued

II. WAGE EARNERS

| Industrial Division                              | 1929    | 1930    | 1931    | 1932    | 1933    | 1934    | 1935    | 1936    | 1937    | 1938    | 1939    |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Manufacturing:</b>                            |         |         |         |         |         |         |         |         |         |         |         |
| Food and kindred products.....                   | 740.9   | 720.0   | 638.2   | 590.8   | 668.9   | 794.3   | 800.1   | 841.1   | 890.7   | 835.0   | 841.2   |
| Tobacco manufactures.....                        | 1,116.1 | 108.4   | 99.8    | 90.8    | 87.3    | 94.2    | 91.4    | 92.2    | 89.3    | 88.3    | 88.2    |
| Textile mill products.....                       | 1,118.5 | 968.3   | 902.8   | 807.3   | 1,016.5 | 1,067.1 | 1,089.0 | 1,131.5 | 969.0   | 1,085.7 | 1,085.7 |
| Apparel and other finished fabric products.....  | 562.5   | 532.5   | 472.9   | 514.7   | 570.8   | 633.2   | 686.5   | 695.8   | 665.9   | 753.8   | 753.8   |
| Lumber and timber basic products.....            | 607.7   | 562.5   | 391.2   | 251.1   | 184.1   | 269.5   | 303.7   | 352.8   | 390.6   | 333.5   | 364.6   |
| Furniture and finished lumber products.....      | 334.9   | 278.3   | 240.8   | 193.9   | 212.1   | 220.6   | 253.6   | 281.3   | 307.2   | 258.1   | 295.0   |
| Paper and allied products.....                   | 243.6   | 235.9   | 208.8   | 189.0   | 206.7   | 238.8   | 248.4   | 281.1   | 256.3   | 269.9   | 269.9   |
| Printing, publishing, and allied industries..... | 358.4   | 349.5   | 313.8   | 273.7   | 261.9   | 287.5   | 302.6   | 325.9   | 351.0   | 326.7   | 325.4   |
| Chemicals and allied products.....               | 281.5   | 262.6   | 231.3   | 206.3   | 238.1   | 272.3   | 277.4   | 286.8   | 316.3   | 268.7   | 299.4   |
| Products of petroleum and coal.....              | 110.0   | 107.4   | 88.7    | 82.0    | 88.0    | 101.2   | 103.1   | 106.5   | 113.6   | 112.6   | 116.4   |
| Rubber products.....                             | 149.1   | 115.4   | 99.3    | 90.8    | 106.3   | 119.2   | 114.7   | 121.3   | 129.8   | 103.5   | 122.4   |
| Leather and leather products.....                | 318.5   | 295.0   | 272.8   | 262.5   | 282.0   | 304.0   | 310.8   | 316.9   | 332.0   | 311.0   | 328.1   |
| Stone, clay, and glass products.....             | 336.9   | 287.0   | 227.6   | 167.2   | 177.6   | 221.0   | 238.0   | 272.6   | 306.2   | 258.8   | 291.4   |
| Iron and steel and their products.....           | 1,069.3 | 928.1   | 719.7   | 577.2   | 655.5   | 807.7   | 899.1   | 1,016.5 | 1,166.3 | 877.5   | 999.3   |
| Nonferrous metals and products.....              | 270.5   | 217.5   | 176.2   | 140.2   | 150.2   | 183.0   | 206.4   | 231.3   | 262.1   | 207.0   | 233.8   |
| Machinery (except electrical).....               | 625.7   | 524.6   | 385.3   | 281.5   | 306.8   | 402.5   | 463.0   | 540.5   | 650.0   | 490.5   | 529.2   |
| Electrical machinery.....                        | 343.1   | 279.4   | 216.6   | 158.6   | 163.7   | 209.4   | 224.4   | 255.0   | 306.0   | 220.1   | 259.4   |
| Transportation equipment (except auto.).....     | 128.8   | 123.4   | 84.1    | 66.1    | 59.8    | 84.9    | 88.2    | 117.2   | 144.5   | 114.8   | 158.0   |
| Automobiles and automobile equipment.....        | 447.4   | 323.2   | 285.5   | 243.3   | 243.6   | 360.7   | 387.8   | 408.4   | 479.3   | 286.3   | 376.8   |
| Miscellaneous manufacturing industries.....      | 221.8   | 194.3   | 161.2   | 133.0   | 144.2   | 170.7   | 185.9   | 204.8   | 222.9   | 212.5   | 242.2   |
| Total.....                                       | 8,331.4 | 7,272.0 | 6,136.2 | 5,210.9 | 5,762.6 | 6,728.7 | 7,177.8 | 7,804.1 | 8,569.2 | 7,197.0 | 7,980.2 |
| <b>Mining and Quarrying:</b>                     |         |         |         |         |         |         |         |         |         |         |         |
| Metals.....                                      | 110.1   | 93.7    | 68.4    | 43.4    | 42.4    | 52.2    | 60.9    | 79.4    | 103.6   | 81.5    | 88.4    |
| Coal:  |         |         |         |         |         |         |         |         |         |         |         |
| Anthracite.....                                  | 142.8   | 135.8   | 120.3   | 97.4    | 84.9    | 99.0    | 92.4    | 91.6    | 91.7    | 82.8    | 82.8    |
| Bituminous.....                                  | 460.0   | 442.0   | 409.0   | 351.0   | 367.0   | 424.0   | 436.0   | 450.0   | 462.0   | 407.0   | 371.0   |
| Other nonmetals.....                             | 75.7    | 68.5    | 59.3    | 46.5    | 45.7    | 53.2    | 53.3    | 60.7    | 66.8    | 57.9    | 63.8    |
| Total.....                                       | 788.6   | 740.0   | 657.0   | 538.3   | 540.0   | 628.4   | 642.6   | 681.7   | 724.1   | 629.2   | 606.0   |

Mining and Quarrying:

Metals.....

Coal:

Anthracite.....

Bituminous.....

Other nonmetals.....

<sup>a</sup> Tabulated from unpublished publications supplied by the Office of Business Economics, U. S. Department of Commerce, based on data of the U. S. Bureau of the Census, Bureau of Labor Statistics, and miscellaneous sources.

**7. LABOR TURNOVER RATES PER 100 EMPLOYEES  
IN ALL MANUFACTURING, 1930-45<sup>a</sup>**

| Year      | Lay-offs | Quits | Dis-charges | Miscel-laneous <sup>b</sup> | Total Separations | Acces-sions |
|-----------|----------|-------|-------------|-----------------------------|-------------------|-------------|
| 1930..... | 35.97    | 18.64 | 5.04        |                             | 59.65             | 37.02       |
| 1931..... | 34.27    | 11.39 | 2.72        |                             | 48.38             | 36.59       |
| 1932..... | 41.68    | 8.34  | 1.96        |                             | 51.98             | 39.82       |
| 1933..... | 32.23    | 10.66 | 2.49        |                             | 45.38             | 65.20       |
| 1934..... | 36.26    | 10.67 | 2.24        |                             | 49.17             | 56.91       |
| 1935..... | 30.08    | 10.37 | 2.29        |                             | 42.74             | 50.05       |
| 1936..... | 24.70    | 13.02 | 2.63        |                             | 40.35             | 52.16       |
| 1937..... | 35.76    | 14.97 | 2.38        |                             | 53.11             | 42.59       |
| 1938..... | 40.47    | 7.46  | 1.29        |                             | 49.22             | 46.16       |
| 1939..... | 26.67    | 9.52  | 1.52        |                             | 37.71             | 48.85       |
| 1940..... | 25.89    | 10.93 | 1.84        | 1.61                        | 40.27             | 52.72       |
| 1941..... | 15.86    | 23.63 | 3.04        | 4.15                        | 46.68             | 64.51       |
| 1942..... | 12.87    | 45.09 | 4.66        | 15.04                       | 77.66             | 91.62       |
| 1943..... | 7.0      | 62.3  | 7.1         | 10.8                        | 87.2              | 89.6        |
| 1944..... | 7.2      | 61.0  | 7.7         | 5.9                         | 81.8              | 73.2        |
| 1945..... | 27.7     | 61.0  | 7.3         | 3.7                         | 99.7              | 75.8        |

<sup>a</sup> U. S. Bureau of Labor Statistics, *Handbook of Labor Statistics*, Vol. I Bulletin No. 694 (1942), p. 534; U. S. Bureau of Labor Statistics, *Monthly Labor Review*, 1943-45.

<sup>b</sup> Includes number who dropped out to enter the armed forces, or through death, incapacity, or retirement on pension. These were included in quits prior to 1940.

8. ESTIMATED SEASONAL RANGE IN NUMBER OF WAGE EARNERS, 1939<sup>a</sup>  
 (In thousands)

| Industry  | High-<br>est<br>Month | Lowest<br>Month | Ratio<br>Lowest<br>to<br>Highest<br>Month | Aver-<br>age<br>Hours<br>Per<br>Year |
|---|-----------------------|-----------------|---|--------------------------------------|
| All Manufacturing.....  | 8,854                 | 7,684           | .87                                       | 1,540                                |
| Food manufacturing.....   | 1,028                 | 750             | .73                                       | 1,385                                |
| Tobacco manufacturing.....  | 97                    | 87              | .90                                       | 1,490                                |
| Textile mill products.....  | 1,236                 | 1,091           | .88                                       | 1,580                                |
| Apparel and other finished articles<br>made from fabrics.....     | 846                   | 727             | .86                                       | 1,380                                |
| Basic lumber industries.....                                      | 458                   | 380             | .83                                       | 1,250                                |
| Finished lumber products.....                                     | 361                   | 302             | .84                                       | 1,585                                |
| Paper and allied products.....                                    | 289                   | 251             | .87                                       | 1,785                                |
| Printing, publishing, and allied industries.....                  | 339                   | 322             | .95                                       | 1,385                                |
| Chemicals.....  | 313                   | 266             | .85                                       | 1,780                                |
| Products of petroleum and coal.....                               | 113                   | 100             | .88                                       | 1,670                                |
| Rubber products.....  | 136                   | 113             | .83                                       | 1,540                                |
| Leather and its manufactures.....                                 | 362                   | 328             | .91                                       | 1,480                                |
| Stone, clay, and glass products.....                              | 320                   | 264             | .83                                       | 1,585                                |
| Iron and steel and their products.....                            | 1,147                 | 905             | .79                                       | 1,630                                |
| Nonferrous metals and their products.....                         | 261                   | 214             | .82                                       | 1,660                                |
| Electrical machinery (including radios<br>and refrigerators)..... | 303                   | 234             | .77                                       | 1,590                                |
| Machinery other than electrical.....                              | 584                   | 489             | .84                                       | 1,770                                |
| Automobiles, bodies, and parts.....                               | 485                   | 292             | .60                                       | 1,380                                |
| Miscellaneous manufacturing.....                                  | 271                   | 221             | .82                                       | 1,635                                |

<sup>a</sup> U. S. Bureau of Labor Statistics, *Wage Earners and Weekly Wages*, January 1939–November 1942.

9. NATIONAL INCOME AND WAGES AND SALARIES, 1919-44<sup>a</sup>  
 (In billions of dollars)

| Year      | Wages and Salaries | Wages and Salaries in Private Industries | National Income |
|-----------|--------------------|--|-----------------|
| 1919..... | 38.6               |  | 68.2            |
| 1920..... | 44.6               |  | 69.5            |
| 1921..... | 35.7               |  | 51.7            |
| 1922..... | 37.2               |  | 59.5            |
| 1923..... | 43.7               |  | 69.5            |
| 1924..... | 43.5               |  | 69.1            |
| 1925..... | 45.3               |  | 73.7            |
| 1926..... | 48.3               |  | 76.6            |
| 1927..... | 48.6               |  | 75.9            |
| 1928..... | 49.6               |  | 78.7            |
| 1929..... | 52.5               | 45.2                                     | 83.3            |
| 1930..... | 47.6               | 40.7                                     | 68.9            |
| 1931..... | 40.0               | 33.6                                     | 54.5            |
| 1932..... | 31.1               | 25.3                                     | 40.0            |
| 1933..... | 29.3               | 23.7                                     | 42.3            |
| 1934..... | 33.9               | 27.4                                     | 49.4            |
| 1935..... | 36.9               | 30.0                                     | 55.7            |
| 1936..... | 42.1               | 33.9                                     | 64.9            |
| 1937..... | 46.2               | 38.4                                     | 71.5            |
| 1938..... | 42.9               | 34.6                                     | 64.2            |
| 1939..... | 45.7               | 37.5                                     | 70.8            |
| 1940..... | 49.7               | 41.1                                     | 77.6            |
| 1941..... | 61.4               | 51.5                                     | 96.9            |
| 1942..... | 80.4               | 65.6                                     | 122.2           |
| 1943..... | 101.8              | 78.9                                     | 149.4           |
| 1944..... | 111.7              | 85.0                                     | 160.7           |

<sup>a</sup> Data from U. S. Bureau of Foreign and Domestic Commerce.

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## INDEX



Adjustments in commitments, 67  
 Advances of wages, 59  
 Age factor in security outlook, 42  
 Aggregate wages, 177  
     and total demand, 178  
 Agricultural workers, 90  
 Alternative labor objectives, 47,  
     235  
 American Federation of Labor,  
     attitude toward guarantees, 18  
     criteria for guarantees, 20  
 American Management Association, 72n  
 Annual wage defined, 6  
 Annual wage plans, classification,  
     50-52  
 Appalachian Joint Wage Conference, 37  
 Apparel industries, 32-33, 122-23  
 Armstrong Cork Co., 60, 72  
 Association of American Soap and Glycerine Producers, Inc., 115n  
 Automobile Manufacturers Assn. 120n  
 Automotive industry, efforts to stabilize, 18  
  
 Basic crew, 59  
 Bell, Spurgeon, 95n  
 Bellman Brook Bleachery Co., 73,  
     144  
 Berkshire Knitting Mills, 65  
 Bituminous Coal Act, 38  
 Braunthal, A., 35n  
 Business policy, 237  
  
 Capital formation, 191-92  
 Capital goods, 239  
 Census, Bureau of the, 84n, 87n,  
     88n  
 Census of Agriculture, 201  
 Chemical Paper Mfg. Co., 74  
 Chernick, Jack, 81n  
 Congress of Industrial Organization, 14-21, 27-30, 32, 35-36, 40-42, 45, 53  
     guarantee formula, 16  
     housing subcommittee, 40  
 Cleveland Plan, 32n, 72, 79, 138  
 Cleveland Women's Garment Industry, 63n, 74  
 Columbia Conserve Co., 73  
 Committee on Economic Security, 215  
 Company plans, 76, 234, 247  
     abandonments, 62, 73-75  
 Competition controls, 168, 171  
 Competitive lines, 159  
 Competitive wage groups, 47  
 "Constant Wage" plan, 60  
 Construction, employment in, 96-97  
 Construction workers,  
     resistance to annual wage, 39-40  
 Consumers',  
     budgets, 185  
     choices, 240  
     demand, 181-83, 186, 238  
     expenditures, 179, 183-84  
 Consumer durables, 238-39  
 Cost of guarantees, 162  
     estimates in Latimer report, 163  
     General Motors estimates, 67-69  
  
 Court, Andrew T., 120n  
 Craft union agreements, 139, 144  
 Criteria for success of plans, 76  
 Crocker-McElwain Co., 70-74  
 Cyclical fluctuation, 81, 104, 131  
     industry variations, 187  
  
 Depressions, 5, 67, 74, 197  
 Diminishing returns, 242  
 Distributive lines, 92  
 Durable goods, 65-66, 99-100,  
     107-08  
     consumer demand, 181-83  
  
 Efficiency gains, 81, 165  
 Electrical workers, 41  
     optional guarantee plan, 41  
     *See also* Unions  
 Eligibility, 58-66, 70

Employment,  
durables, 110  
industrial wage earners, 93-94  
mining, 97  
nondurables, 113  
regularization, 7, 37  
salaried workers, 126-27  
war influence on, 128

Employment lag, 103

Employment by industries, 88

Employment shifts, 89

Enterprise system, 194

Experience rating, 216-18  
with guarantees, 223

"Extras" in labor force, 86, 131

Fair Labor Standards Act of  
1938, 5, 54, 74, 82, 216,  
219, 219n, 221  
maximum hours, 220

Federal Reserve Bank of New  
York, 112n

First-job seekers, 86

Flexibility of guarantees, 143

Ford Motor Co. 185n

Forecasting requirements, 140

Foreign trade, 189

"Full Employment," 3, 181, 228,  
232  
effect of guarantees, 202

Garment Workers, 32. *See also*  
Unions

General Electric, 62n, 67, 74

General Motors, 9, 62n, 67-69

Government,  
employees, 91  
expenditures, 190  
support, 26, 208, 228

Green, William, 18-20, 39

Guarantees,  
adjustments, 67  
administration, 145, 147, 235  
annual income, 55  
consumer goods, 7, 65  
coverage, 57  
covering the costs, 162-63  
cyclical industries, 10, 22  
differentials, 143

durables, 65  
duration, 70-71, 142  
economic basis, 232  
eligibility, 58  
employment, 52  
estimated cost, 68-69  
federation influence, 14-15  
general, 210  
in manufactures, 64  
integrated with unemployment  
compensation, 221-22

limitation, 209

low-wage industry, 36

partial payments, 66, 73

sales volume as basis for, 57

steel workers' demands, 8

total hours, 53-54

vs. other prerogatives, 15, 38-  
39

Guffey Act, 168

Hat, cap, and millinery industry,  
34. *See also* Unions

Heavy industry, 154

Hellickson, George C., 81n

Hoover, President, 158n

Hormel Co., 7, 29, 30n, 55-57,  
64-65, 70-71, 76, 81n, 142n,  
218, 223  
union attitude, 44

Income flow, 205

Income-sharing plan, 43

Industries covered, 61-63

Industry planning, 45

Industry-wide bargaining, 136,  
140

Inflationary forces, 161

Insecurity of tenure, 50

International Harvester Co., 59,  
66

Inventories, 157-58

Inventory-building, 237

Investments, 162, 188  
reserves, 166

Job holding, 231

Job opportunity, 207, 229

Job transfers, 70  
Kaufman and Co., 36  
Labor force, 84-88  
Labor mobility, 200  
Labor overhead, 150-51  
Labor Statistics, Bureau of, 102n, 103n  
Labor turnover, 96, 230  
Latimer, Murray W., 9, 163n, 221  
Layoffs under guaranteed annual wage, 142, 156  
Limitation of liabilities, 61-72  
Living standards, 241  
Local differentials, 33  
Low earnings supplementation, 59  
  
Management,  
    guarantee plans, 6  
    responsibility for worker security, 16-17  
    workers' confidence in, 43  
Marginal firms, 167  
Marine and shipbuilding workers, 24. *See also* Unions  
McCormick and Co., 53, 65, 76  
Meat industry, 29, 31. *See also* Unions  
Mine Workers. *See* Unions  
Minimum wage guarantee, 60  
Morton Salt Co., 71  
Multiple jobs, 200-02  
Murray, Philip, 16-17  
Myers, Charles A., 79n  
  
Namm Department Store, 71  
National Industrial Conference Board, 53n, 58n, 62n, 64, 65n, 66, 73, 78-79  
National Labor Relations Act, 5  
National Wallpaper Association, 50, 63, 74  
National War Labor Board, 8, 17, 22-24, 45, 53, 62  
    Steel Panel, 51  
Nielsen, Alice Lenore, 62n, 74n  
Nondurable goods, 101  
employment, 113  
pay rolls, 114  
production, 112-15  
Nunn-Bush, 7, 43, 56-57, 64-65, 73-76, 79n, 116, 193, 218  
  
Occupational distribution, 87  
Occupations and wage security, 84-87  
Office of War Mobilization and Reconversion, Sub-Committee on Guaranteed Annual Wage, 15n, 21, 62, 163  
Old Age and Survivors Insurance, Bureau of, 201  
Orders, flow of, 205  
Orgill Brothers, 28  
Overhead, 242  
Overtime, 82  
  
Parker Manufacturing Co., 54  
Pay rolls, 101, 102, 110  
Price policies, 160  
    peaks and lows, 161-70  
Prices, 237  
Procter and Gamble, 7, 53, 65-67, 70-71, 76, 116  
Producers' goods, 188, 204  
Producers' nondurables, 118  
Production, planned, 25  
    cyclical fluctuations, 104  
    durables, 100  
    manufactures, 97-98  
    nondurables, 101  
Profit sharing, 60  
"Prompt wage payment" laws, 219  
Public utilities, 96  
Purchasing power, 11, 22, 46, 176  
  
Quaker Oats Company, 52  
  
Railroad Retirement Act, 201  
Regularization,  
    inducements to, 77  
    of employment, 78-79  
    of inventories, 81

- of markets, 76
- of production, 77, 153
- Reserve funds, 193
  - company reserves, 164
  - effect on income flow, 196
  - liquidation, 206
  - sources, 165, 195
  - wage withholdings, 56
- See also* investments
- Restriction of commitments, 66
- Richmond Piece Dye Works, 60, 73
- Richter, Prof. Lothar, 131
- Roosevelt, President, 9, 15n, 210
- Ruttenberg, Harold T., 16
- Salaried employment, 126-27
- Samarkand Co., 74
- Schultz, Theodore W. 91n
- Sears Roebuck, 60, 74
- Seasonal variation, 105-06, 124-25, 132
  - control of, 153
  - durables, 119-21
  - nondurables, 121-23
- Seasonal workers, 86
- Security, 4, 241
  - individual vs. aggregate, 173-74
- See also* Fair Labor Standards Act; National Labor Relations Act
- Senate Committee on Finance, 217
- Seniority, 46
- Steel Workers. *See* Unions
- Service industries, 91
- Shell Oil, 9
- Silberling, Norman J., 186
- Size of guaranteeing firms, 64
- Small firms, 30, 46, 166-68
- Social Security Act, 5, 74, 201, 216
- Social Security Board, 200-01
- Social security legislation, 212
- Spiegel, Inc., 57, 65, 72
- Stability concept, 174
  - and job opportunity, 175
- Stability of industry, 49
- Stabilization, 18
  - legislative inducements, 215
- Standards of performance, 56
- Standardization, incentives to, 157
- Steel-using industries,
  - employment, 108
  - pay rolls, 109
- Stewart, Bryce M., 50n, 147
- Swift & Co., 52
- Taxes, 227
- Terborgh, George, 183
- Textile workers, 31
- Thomas, R. J., 23, 40n
- Total employment, 199
- Truman, President, 136
- Underemployment, 152
- Unemployment, 225
- Unemployment compensation, 213-17
  - integration with guarantees, 240
  - expiration of benefits, 224
- Union agreements,
  - local autonomy, 14, 19
  - numbers involved, 61-63
  - retail establishments, 144
- Unions,
  - Amalgamated Clothing Workers of America, CIO, 32, 60
  - Amalgamated Meat Cutters and Butcher Workmen of No. America, 30-31
  - Industrial Union of Marine and Shipbuilding Workers, 24-25
  - International Brotherhood of Electrical Workers, 21, 41
  - International Ladies' Garment Workers Union, AFL, 32, 138
  - National Maritime Union of America, 24
  - United Auto, Aircraft, Agricultural Implement Workers of America, CIO, 40n

United Automobile Workers, 23-24, 27, 40  
United Hatters, Cap and Millinery Workers Union, 21, 34-37  
United Mine Workers of America, 37-38, 47, 168  
United Packinghouse Workers of America, CIO, 29, 44, 142n  
United Steel Workers of America, 8, 17, 22-23, 143n  
Wholesale and Warehouse Union, 59, 71  
United States Steel, 9  
Variation among industries, 236  
Wage rate, 47  
Wage reserves, 238  
Wages, aggregate, and national income, 179-80  
Wage workers, aggregate earnings, 94  
War Labor Board. *See* National War Labor Board  
Ways and Means Committee, 217n  
Work deficits, make up of, 58  
Workers', morale under annual wage, 81 transfer, 146, 239  
Weiss, Abraham, 64n  
Wildman Manufacturing Co., 28, 36n, 53, 70-71, 143n  
Wisconsin Unemployment Compensation Act, 216  
Woolen Jobbers Association, 59  
Wrigley Jr. Co., 72



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